

# SPECIALFASTIGHETER 2017 ANNUAL REPORT

WITH INTEGRATED SUSTAINABILITY REPORT

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MARKET LEADER IN  
SECURE FACILITIES



**SPECIALFASTIGHETER**  
EN SÄKER VÄRD

# Contents

## 2017 Annual Report and Sustainability Report

Like last year's report, financial, sustainability and corporate governance-related information has been integrated to provide a comprehensive description of Specialfastigheter's operations.

### Administration Report

The Administration Report can be found on this page and pages 6–105.

## Sustainability Report

The Sustainability Report follows the 2016 GRI Standards: Core option and has been the subject of a limited assurance report by an external auditor. The scope of the Sustainability Report is detailed in the GRI list of contents on page 52.

### Sustainability Report (SR)

The Statutory Sustainability Report pursuant to the Annual Accounts Act can be found on pages 8–14, 18–33 and 50–56.

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SR = Sustainability Report

*While every care has been taken in the translation of this annual report, readers are reminded that the original annual report, signed by the Board of Directors, is in Swedish.*

## Best at secure facilities

Specialfastigheter owns and manages properties including correctional facilities, juvenile care homes, courts of law and police properties. These are all special operations that have strict demands, particularly in terms of security, which is why we have chosen to call the niche in which we work "secure facilities." We are a safe, secure and proactive property owner that focuses on long-term relationships, and we define both current and future requirements in close collaboration with our customers.

## Our business idea



Based on sustainable business practices and long-term commercial ownership, Specialfastigheter develops and manages properties in Sweden for customers whose operations demand high security standards.

## Our mission



Specialfastigheter's mission is to own, develop and manage properties with strict security requirements in Sweden on commercial terms for the long term, wherever there is a national security interest. The guiding principle of our operations is to reduce the state's overall costs. In a competitive market, Specialfastigheter may also own, develop and manage properties in which there are other kinds of security interests and pursue other related business.



## Committed employees and strong values

A commercial approach and customer focus are the aspects that characterise Specialfastigheter's corporate culture. Our core values – security, proximity, long-term planning and collaboration – are deeply rooted at the company. We have a Code of Conduct that helps us in our daily work to conduct business in a way that reflects our values. It is also important that our suppliers share these values, since this is a precondition for long-term

collaboration. For this reason, we have produced a Code of Conduct to which our suppliers must adhere. It is obvious to us that we should always put security first and act within the frameworks set for our targets, management system and field of operation. Specialfastigheter's dedicated and skilled employees are given substantial personal responsibility and considerable opportunities for development, not least within the area of security.

### Security



Security issues are our highest priority. Our mission requires great responsibility and skill.

### Long-term planning



We are a stable company that invests in the long term together with our customers.

### Proximity



We have a customised organisation in which we discuss plans, needs and wishes through open dialogue.

### Collaboration



Together we can create opportunities to ensure our customers' success.

# Specialfastigheter in brief

Specialfastigheter owns, manages and develops properties for customers with security requirements. Our property holdings comprise floor space of around 1.1 million square metres and a market value that amounts to SEK 25 billion. In 2017, we had sales of SEK 2,028 million and a net profit of SEK 1,719 million.

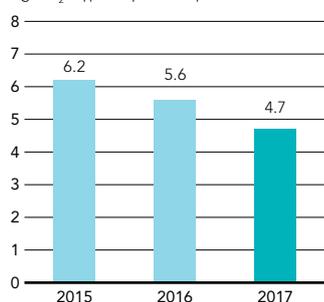
Our biggest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. Our customers are located across the country – from Ystad to Haparanda – as are our 140 or so employees. Our registered office is in Linköping, with the head office divided between Linköping and Stockholm.

The emission intensity fell by

## 16.1%

From 5.6 kg CO<sub>2</sub> eq per sq m Atemp in 2016 to 4.7 kg CO<sub>2</sub> eq per sq m Atemp in 2017.

Kg CO<sub>2</sub> eq per sq m Atemp

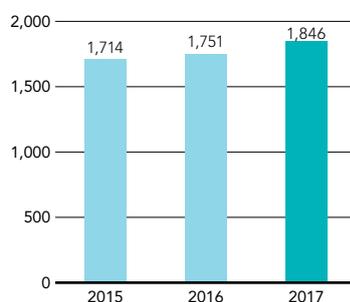


Total rental income increased

## 5.4%

From SEK 1,751 million in 2016 to SEK 1,846 million in 2017.

SEK million

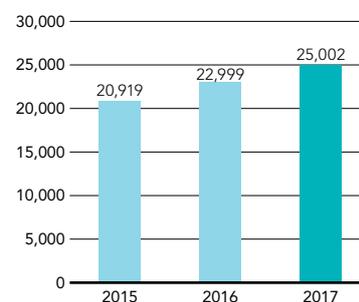


The market value increased

## 8.7%

From SEK 22,999 million in 2016 to SEK 25,002 million in 2017.

SEK million

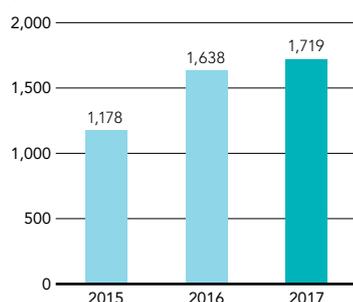


Earnings increased

## 4.9%

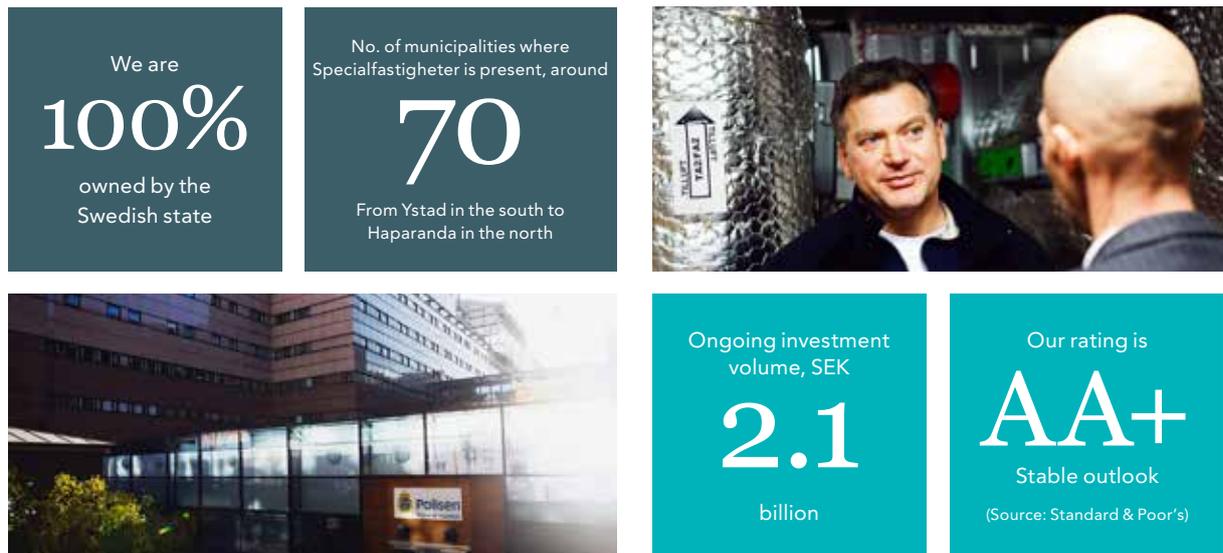
From SEK 1,638 million in 2016 to SEK 1,719 million in 2017.

SEK million



## 5 years in brief

	2013	2014	2015	2016	2017
Income from property management, SEK million	1,858	1,872	1,867	1,912	2,028
Net operating income, SEK million	1,449	1,452	1,400	1,409	1,495
EBT, SEK million	1,673	1,782	1,474	2,100	2,165
Net profit for the year, SEK million	1,301	1,390	1,178	1,638	1,719
Return on equity, %	18.3	17.3	15.6	22.6	20.3
Adjusted return on equity, %	13.6	10.8	11.8	13.7	13.2
Yield, %	7.6	7.3	6.8	6.4	6.2
Rental income, SEK/sq m	1,574	1,600	1,618	1,644	1,700
Occupancy rate, %	98.8	98.3	98.7	98.6	99.0
Surplus ratio, %	78.0	77.6	75.0	73.7	73.7
Floor space, sq m, thousand	1,109	1,066	1,058	1,088	1,079
Investments including property acquisitions, SEK million	497	371	419	1,288	1,398
Market value, investment properties, SEK million	19,455	20,271	20,919	22,999	25,002
Loan-to-value ratio, %	48.4	44.4	57.8	55.9	53.3
Equity/assets ratio, %	38.1	41.2	30.2	32.2	33.8



## Three customer-centric business areas

Our business areas – the Prison and Probation Service, Defence and Judicial System, Institutional Care and Other Special Operations – enable us to provide both efficient comprehensive solutions and valuable detailed expertise. Each business area works closely with its customers and acts in line with their own specific circumstances. Our focus is always on identifying optimal solutions together with customers for everything from the development of premises and environmental protection to security issues.

### Prison and Probation Service business area

Our largest business area consists of just one customer, the Swedish Prison and Probation Service, which accounts for 41% of the company's income. We own Sweden's three high-security prisons Kumla, Hall and Saltvik along with other well-known prisons, such as Hinseberg, Tidaholm and Österåker within this business area.

#### Customers

The Swedish Prison and Probation Service

#### Major properties:

Kumla • Hall • Saltvik • Norrtälje  
• Skänninge

### Defence and Judicial System business area

Within this business area, we mainly work with customers in the defence and judicial system who are responsible for national security. Our property management is highly important for central societal functions.

#### Customers

The Swedish Police  
The Swedish Armed Forces  
The Swedish National Courts Administration  
The Swedish Defence Materiel Administration (FMV)  
The Swedish Defence Research Agency (FOI)  
The Swedish Enforcement Authority  
The Swedish Prosecution Authority

#### Major properties

Kronoberg complex • Tre Vapen (FMV's headquarters) • Swedish Armed Forces' headquarters • FOI Kista

### Institutional Care and Other Special Operations business area

With several facilities around the country, the Swedish National Board of Institutional Care (SiS) is the largest customer in this business area. Operations in this area involve the care and treatment of young people with psychosocial issues and adults with addiction problems.

#### Customers

The Swedish National Board of Institutional Care (SiS)  
The National Swedish Museums of Military History (SFHM)  
The Swedish Civil Contingencies Agency (MSB)  
The National Board of Forensic Medicine  
The Folke Bernadotte Academy  
The Swedish Migration Agency

#### Major properties

Sandö • Revinge • Swedish Air Force Museum • Gudhem • Sundbo



Kriminalvården

Kronofogden



DOMSTOLSVÄRKET  
SVERIGES DOMSTOLAR



ÅKLAGARMYNDIGHETEN

FMV

Statens  
institutioners  
styrelse SiS

Migrationsverket



FOI



FBA



Polisen



FÖRSVARSMAKTEN



Myndigheten för  
samhällsskydd  
och beredskap

statens  
Försvarshistoriska  
museer



RÄTTSMEDICINALVERKET

# Strong growth with a focus on secure facilities

In 2017, Specialfastigheter increased its investments in development projects, made strategic investments and recruited some twenty new employees, all of which has allowed us to further clarify our focus and consolidate our leading position in secure facilities.

When summarising 2017, I note that it has been an intense year in many areas and that we have increased our investment volume for projects in progress to around SEK 2.1 billion. We are particularly proud of the fantastic new district court building in Lund that will be completed by the spring. The renovation of the Kronoberg remand centre in central Stockholm with almost 300 new cells proved to be a complex project spanning several years, but it is now fully finished and the centre was opened in January 2018. We also implemented numerous security-enhancing measures at several prisons for the Swedish Prison and Probation Service. During the year, we also collaborated intensely with the Swedish National Board of Institutional Care to meet their increasing accommodation needs. We are pleased to have received the green light to create 104 new places, which in turn will require more shared premises for school, work and leisure.

In late 2016, we acquired Rättscentrum in Luleå containing several new customers with whom we cultivated relationships at the property throughout the year. We took possession of a new office property in Kista in June 2017, with FOI as the tenant. In 2018, we take possession of two properties in Värnamo containing SiS operations and we are looking forward to welcoming the Swedish Transport Administration as a new customer. Our plan is to acquire the properties used for traffic management so they can focus on their operations which are important for society. Our role will be to ensure the secure operation and management of the properties. Overall, we reinforced Specialfastigheter's position during the year as a leader in secure facilities. Our property value increased SEK 2 billion and now amounts to SEK 25 billion, of which SEK 1,398 million pertains to acquisitions and investments in our own properties.

## Refinement to focus on secure facilities

Our development projects and acquisitions show that Specialfastigheter has a clear focus: we are a property company that is entirely focused on customers with security requirements. This is why we invest in development and acquisitions within our niche and sell any properties that are not entirely suited to our focus. We disposed of Malmö's old central prison during the year, which can now be converted into an attractive residential area. We also sold an old prison in Småltäryd and a decommissioned fire and rescue training college in Skövde that each municipality can now develop to meet other societal needs.

We continued to develop our sustainable enterprise business model to clarify how we can create value for our stakeholders. Our customer offering must be clear as we operate in an open and competitive market. We want our customers to choose us because we are a reliable, secure and sustainable landlord.

Net profit  
for the year, SEK

**1,719**  
million

## Stable earnings a prerequisite for growth

The availability of resources forms the basis of our work and growth. Earnings remained very strong in 2017, and our stable customer base with long leases and generally no vacancies ensures we continue to have strong earnings over time. Our low funding costs due to low interest rates, a high equity/assets ratio, a very good rating and a stable owner are strong contributing factors to this trend. Investments and maintenance are increasing as planned and ensure positive growth. Our owner, the Swedish state, receives half of our earnings in the form of dividends. The remaining earnings are invested in our growth, as the demand for secure facilities remains extremely strong.

## Information security high on the agenda

To date, the property sector has not taken information security issues sufficiently seriously, but the risks are becoming increasingly apparent. Information security is based on a system whereby we classify information depending on how confidential it is and ensure that it is accurate and traceable. The information should also be accessible – but only to those who need it. We reviewed our security protection agreements during the year and assessed how the entire organisation is adhering to them. Robust security protection requires expertise, interest, commitment and consistent improvement efforts. This issue is constantly on the agenda for both our management and our Board of Directors, as our view is that this area should absolutely be handled at management level.

## Conscious sustainable development

Specialfastigheter is to be a sustainable company and an example to others. We are pleased that we reduced our carbon dioxide emissions compared with the base year 2012 by 47%, which means that we have already – far in advance – achieved our goal for 2030 (which was 40%).

We managed to achieve this by reducing our energy use and increasing the proportion of fossil-free energy. We are now setting considerably bolder targets – in 2018 we aim to reduce emissions by 52% and 75% by 2030, compared to the level in 2012.

We issued our first green bonds in November, which were received extremely positively and were quickly oversubscribed. Our employees put in considerable efforts to bring about this bond issue and we have also improved our communication surrounding our green investments. We prepared for environmental certification in 2017, and hope to be certified in accordance with ISO 14001:2015 in spring 2018.

We want to see greater diversity among our employees and thus reflect Swedish society. To increase diversity in relation to foreign backgrounds, we have focused on this area when recruiting and striven to take on more interns and workplace induction students with a foreign background. It is therefore pleasing that we succeeded in increasing this proportion to 10%, which was our target for 2017. The long-term target of achieving 15% by 2022 is something we will continue to work towards, as we consider this to be an important issue.

Specialfastigheter works with the UN's sustainable development goals and has signed up to both the UN Global Compact and the Government's Fossil Free Sweden initiative. We will continue to develop and improve upon our efforts based on these key initiatives and principles.

### Break the negative spiral

It is always difficult to predict social trends, but there are many signs that we currently have a tougher and more strained social climate than in the past. Dark forces have increased and we need to clearly mobilise the good forces to counteract a negative spiral that could threaten our democratic society. Our customers have the same objective as us – a safe and secure society – and have clarified what they need to carry out their assignments moving forward. We see a risk in terms of them failing to obtain the resources they need, which would reduce our ability to meet customers' expectations in terms of security, competence and support. With the right long-term conditions and good forward planning, I am convinced that, together, we can turn this trend around and move toward a more positive future.

### More employees and increased skills

Expanding operations with new properties and customers means we need to recruit more employees. Requirements relating to sustainability and reporting are also increasing from society and our stakeholders. To ensure we have the right skills and can honour our commitments, we chose to increase the number of employees and services during the



year. We recruited more service technicians and specialists within projects, maintenance, electricity and fire safety. A sustainability strategist and a project group manager started work in January 2018, and we plan to recruit an operational strategist. The Board also appointed our CFO Kristina Ferenius as Deputy CEO from 1 January 2018. This is a good way to reinforce the management function, and I welcome it.

We develop the skills of our employees on a continuous basis, as we need to guarantee the right skills both today and for tomorrow. I am incredibly proud of how the employees at Specialfastigheter always take customer service one step further and help to make consistent improvements. Together with our customers and suppliers, we do everything we can to achieve our vision – to be the most secure and attractive property company promoting a safer, more secure society.

A big thank you for a productive 2017 – we can now look forward to an exciting 2018.

Linköping, 15 March 2018

Åsa Hedenberg  
CEO

# Security and sustainability in our sights in 2017

Security has long been a focus of ours at Specialfastigheter, but it became a major issue once again in 2017 across society as a whole. Below are some of the significant events that took place at the company during the year.

## Possession in Kista

FOI also became our tenant in Kista in June, when we took possession of the Färöarna 6 property in Stockholm. This occurred after a subdivision process that took around a year. FOI was already a customer of Specialfastigheter in Umeå. The building in Kista has approximately 24,700 sq m of floor space.

## Voluntary work during working hours

All employees at Specialfastigheter had the opportunity in 2017 to undertake voluntary work for eight hours during ordinary working hours. Our employees took the opportunity to help others by offering swimming training for new immigrants, becoming a churchwarden and providing administrative help to ease the burden on voluntary organisations. These efforts – set to continue for two years – are part of a collaboration with Volontärbyrån.

## Malmö central prison to become housing

When the property that once served as Malmö's central prison – also known as Kirseberg – no longer suited our customers' operations, we sold it in the summer to the municipal housing company MKB, which can now redevelop and expand the property into several hundred housing units. As more housing is needed in Sweden, not least in the major cities, we have a very positive view of the fact the property can be developed into an attractive residential area.



## Successful heat recycling at the Kronobergsbadet swimming pool

In 2017, we drove an energy-related sustainability project at the Kronobergsbadet swimming pool, which is adjacent to the Swedish Police's headquarters on Kungsholmen, in Stockholm. To take advantage of waste heat, the pipelines that lead hot waste water from the showers were re-laid to pre-heat the water for the swimming pool and other parts of the building. This saved us around 60 MWh, which corresponds to the heating of four average-sized detached houses for a year.

## Decision regarding Deputy CEO

Specialfastigheter's Board of Directors decided in September to appoint a Deputy CEO for the company. The choice was Kristina Ferenius, who has worked for just over two years as Specialfastigheter's CFO, responsible for financial accounting, treasury and business control. Her tasks have included leading the comprehensive improvement initiatives by managing and following up operations, which has given her excellent insight into the entire company. Kristina Ferenius will also continue in her role as CFO, but was given the supplementary title of Deputy CEO from 1 January 2018.



## Re-inauguration of artwork at the Swedish Armed Forces' headquarters

In October, the totally renovated terrazzo mosaic artwork in the courtyard of the Kavalleristen 3 property (Armed Forces' headquarters) was unveiled in Stockholm. The some 200-square-metre-large artwork, which was created at the end of the 1960s by Pierre Olofsson, underwent a careful renovation.

## New leases with the Swedish National Board of Institutional Care

During the autumn, the Government approved the 25-year leases for the correctional facilities of Folåsa, Hässleholm, Johannisberg and Ljungbacken, allowing us to complete the project of creating new accommodation that SiS so badly needs. The project volume is around SEK 760 million.

## Focus on security protection

Extensive work was put into updating and developing existing and new security protection agreements during the year. Internal efforts were made relating to the systematic fire prevention initiative, while a targeted, special training course for our local security coordinators was conducted. Major focus was also placed on adapting security protection in connection to our acquisition of Rättscentrum in Luleå.

## First green bonds

We issued our first green bonds in November. The bonds, which amount to SEK 500 million with a maturity of five years and SEK 750 million of seven years respectively, will finance environmental projects such as the new district court building in Lund (preliminarily certified to Sweden Green Building Council certification system, Miljöbyggnad, Gold level) and energy enhancement measures. Interest was very strong and the bonds were oversubscribed.



## Reduction in CO<sub>2</sub> emissions following conversion to biogas

We have previously used natural gas for heating at two of our properties: the Tygelsjö correctional facility and the Swedish Civil Contingencies Agency's (SMB) facility at Revinge. We have been converting our use of natural gas to biogas since 2017 in order to phase out fossil fuels and reduce our emissions. As the carbon dioxide equivalent for biogas is zero, the change has led to a reduction of around 170 tonnes of carbon dioxide.



Photo: The Swedish Prison and Probation Service

## New opening of Kronoberg remand centre

The renovated Kronoberg remand centre was newly opened in December. A large number of the Swedish Prison and Probation Service's management group was present, along with General Director Nils Öberg who cut the symbolic ribbon. This was an extensive project, beginning back in 2011 and complicated by the fact that operations were ongoing at the property throughout the renovation.

## Proposed transfer of the Swedish Transport Administration's traffic centres

In its autumn budget, the Government suggested that the Transport Administration sell a number of properties to Specialfastigheter. This concerns its traffic centres, from which the Administration manages train traffic and motorway traffic. The Government carried out an investigation and decided that the conditions for managing buildings with special security protection requirements were best served by the properties in question being managed by Specialfastigheter, to subsequently be rented by the Transport Administration following redevelopment and extension.

## Continued investment in information security

In early May, DNV GL carried out a periodic audit of our information security management system (LIS), and the results were positive. To ensure continuous improvements are made, we have adjusted and adapted our operations to the proposals noted in connection with the audit.

# A business model that creates sustainable value

## OUR STRENGTHS AND ASSETS

### A SECURE AND SUSTAINABLE BUSINESS



Specialfastigheter is a market leader in secure facilities. Our main strength and competitive advantage is our long experience and extensive expertise in the area of security.

### STABLE CUSTOMER RELATIONSHIPS



Collaboration, proximity and dialogue with our customers with security requirements are at the core of both our ongoing management, and our long-term planning and development of secure facilities. We have internally governed customer-centric management.

### OUR PROPERTY PORTFOLIO – SECURE FACILITIES



We have a focused portfolio of sustainable and customer-adapted secure facilities spread over some 70 municipalities. We work proactively to develop our property holdings in line with customers' changing needs.

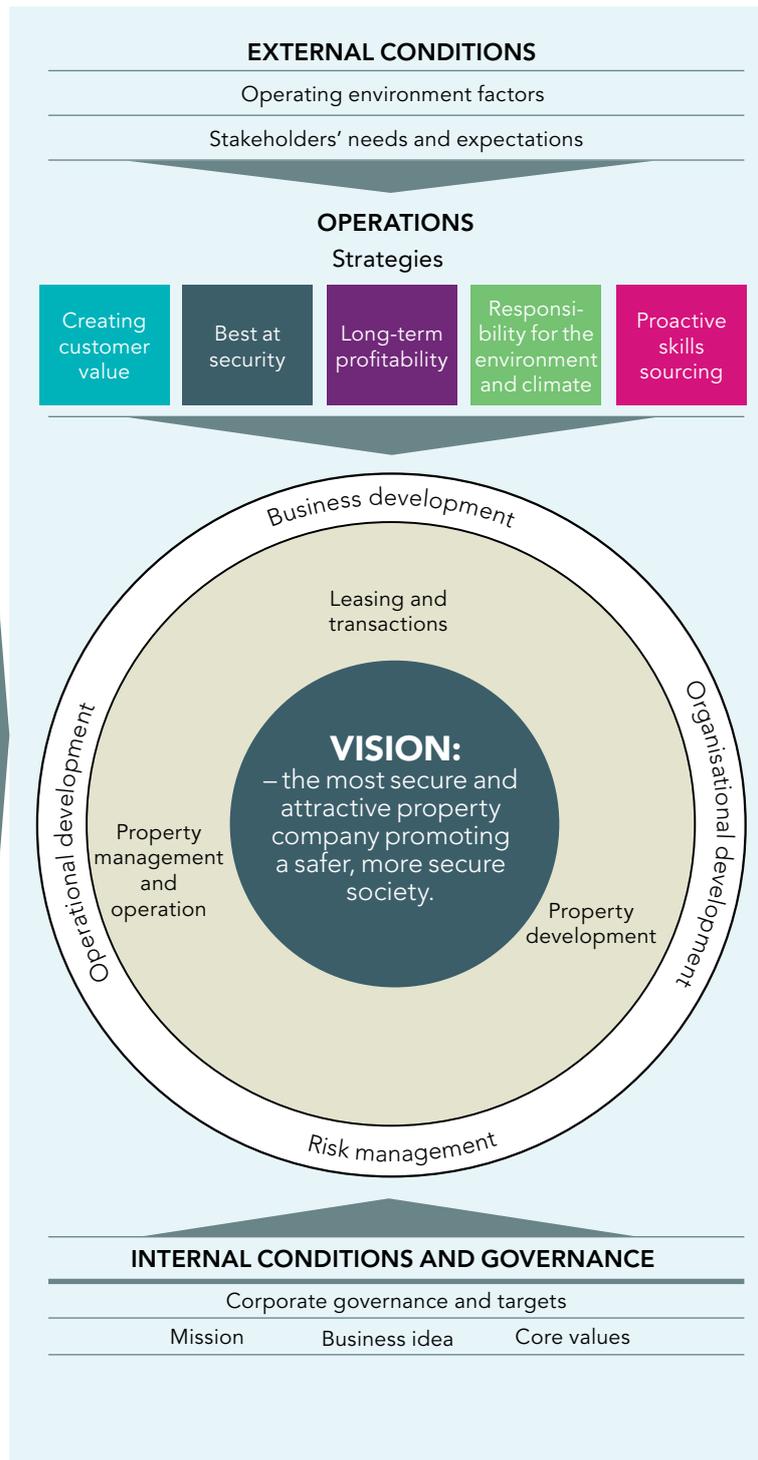
### STRONG FINANCIAL POSITION



Our strong profitability is based on our long leases – which provide us with a stable cash flow – and the low interest rate level of recent years. We have surplus value in our properties, a high equity/assets ratio, the Swedish state as our owner and a high credit rating, AA+.

Read more about our strengths and assets on pages 10–13

## OUR BUSINESS



Specialfastigheter helps create a safer Sweden by offering efficient and security-adapted properties to customers with security requirements. We hold a strong basic position that we continuously improve – always in partnership with our customers and suppliers. Using our five strategic areas, we apply a targeted approach to satisfy the expectations of our operating environment. We pursue the right direction step by step, creating value for customers, owners and other stakeholders while integrating sustainability into everything we do.

## VALUE-CREATING ACTIVITIES AND RESULTS IN 2017

### A SECURE AND SUSTAINABLE BUSINESS

- Approved periodic audit of information security, ISO 27001
- Update to security protection agreements
- Risk analyses conducted of critical properties and major projects
- New guideline for insider and infiltration threats
- 87.9% of leases have green appendices and of these, 98% have green action plans
- CO<sub>2</sub> emissions reduced by 15.6%
- Ongoing environmental certification efforts, ISO 14001, with audit in January 2018
- Obtained preliminary SGBC Gold level certification (Miljöbyggnad Guld) – the highest level – for the new district court building in Lund
- Increased the number of employees with foreign backgrounds to 10%
- No cases of discrimination occurred
- Contract compliance of 91% and number of suppliers reduced from 1,287 to 1,230
- Concept developed for collaborative contracts
- 74% of our total purchases are covered by the conditions in our Code of Conduct
- Risk analysis conducted regarding human rights

### STABLE CUSTOMER RELATIONSHIPS

- Customers consist mainly of government authorities and departments
- Rental income increased 5% to a total of SEK 1,846 million
- Seven renegotiated leases (2017) with an overall annual rental income of SEK 94.4 million.
- Long leases with an average remaining term of 12.6 years
- Low vacancy rate: 1.0%
- FOI (Swedish Defence Research Agency) is now also our tenant in Kista, since we acquired a property there with them as the tenant
- Close stakeholder dialogue with customers
- Measures taken to improve the CSI result
- Customer service training conducted in operations and property management

### OUR PROPERTY PORTFOLIO – SECURE FACILITIES

- 96 sustainable and customised secure facilities with floor space totalling 1,079,064 sq m in close to 70 municipalities in Sweden
- Strengthened market position by way of property development, acquisitions and new construction
- Acquired secure facilities with development potential in Värnamo (possession in 2018) for SiS and a number of land areas adjacent to our properties for potential future expansion
- Disposed of properties without security requirements, for example Malmö's old central prison, the old Smälteryd prison and a training area in Skövde
- Property value increased to a total of SEK 25,002 million
- Investment of SEK 1,398 million and maintenance of SEK 77 million toward secure, sustainable, customised property development
- SEK 97 million in tenant adjustments
- Implemented LEB property system for case management and maintenance
- Collaboration with customers and suppliers on new products and services have resulted in further development of security products
- Improved control and monitoring systems within property automation to ensure increased operational reliability and more efficient management

### STRONG FINANCIAL POSITION

- Stable financial position with an equity/assets ratio of 33.8%, equity of SEK 9,066 million and loans totalling SEK 13,781 million
- Stable return with a net profit of SEK 1,719 million and a yield of 6.2%
- Retained high credit rating of AA+, confirmed by Standard & Poor's on 20 December
- Issued green bonds to a value of SEK 1,250 million

Read more about targets and results on pages 20–21.

# A secure and sustainable business

We own, develop and manage properties in Sweden with security requirements. Sustainability, whether it be economic, societal or environmental, is to permeate all of our operations and we work in line with the UN's sustainable development goals.

## Market leader with strong values

Specialfastigheter is a market leader in secure facilities. Our business is based on our four core values: security, long-term planning, proximity and collaboration. Specialfastigheter is a signatory of the UN Global Compact and adheres to the conventions on which it is based. These also form the basis of our Code of Conduct, which guides employees in their day-to-day work. To emphasise the importance of the social transition needed to reduce emissions, we have been a member of Fossil Free Sweden since 2016. We reported our sustainability work in accordance with the GRI Standards: Core option for the first time in 2017.

## Proactive risk-related work minimises injuries

We work proactively with risk management, including the areas of security, the work environment and anti-corruption. By way of extensive risk analyses in which we systematically identify, analyse, evaluate and manage risks, we prevent and minimise injuries. This risk management is conducted throughout our operations, but particular focus is placed on the greatest risks that we collate in a risk register. A reporting tool helps us manage reported incidents as well as identify and implement both preventive and remedial measures. We also have a whistle-blowing system that enables people to anonymously report irregularities or unsatisfactory circumstances.

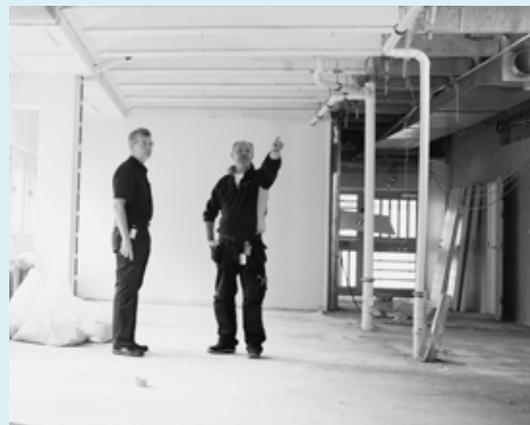
## Extensive experience in the area of security



The aspects that make Specialfastigheter the leading operator in terms of secure facilities are our long experience and extensive expertise in the area of security. Our customers place strict requirements on both properties and the handling of sensitive information, and we are specialists in fulfilling these requirements. Other important success factors in our security-related work include awareness, interest and commitment among our employees. We focus on four principal security areas – personal security, operational reliability, information security and physical security – and we have defined a number of tools to optimise efforts, including everything from risk analyses and continuity planning to crisis management and incident reporting. Specialfastigheter has ISO-certified its entire operations in terms of information security. Our work contributes to national security and ensuring a safer society.

## Proactive efforts throughout the supply chain

We create cost-efficient and sustainable supply chains by imposing requirements on our suppliers. An obligatory Code of Conduct, self-assessment forms, on-site audits and evaluations all form the basis of long-term, mutually beneficial partnerships. We measure contract compliance as it shows how effective our requirements are in terms of efficiency, security and quality when purchasing. As many employees act as purchasers, continuous training is carried out in areas such as business ethics and anti-corruption.



# Stable customer relationships

Specialfastigheter's main target group is state agencies and we possess a large market share within secure facilities for the Swedish National Board of Institutional Care and the Swedish Prison and Probation Service, among others.

## Stability in all economic conditions

Close, long-term customer relationships, long leases and customers with very high credit ratings result in a stable situation for us irrespective of economic conditions. As both we and our customers are impacted by external developments and political decisions, we closely monitor any event that could be significant. The customer dialogue ensures mutual awareness and understanding, which is a precondition for strong, long-term partnerships. Our focus is always on identifying optimal solutions together with customers for everything from the development of premises and environmental protection to security issues. Our customers can always feel secure with us.

## Internally governed customer-centric management

Collaboration, proximity and dialogue with our customers are at the core of both our ongoing management, and our long-term property planning and development. Our goal is to have internally governed operations and management, based on a customer and security perspective.

Specialfastigheter has also chosen to create its own project and development unit to guarantee customers' needs are met in relation to the production and adaptation of the properties. Our purchasing unit ensures cost-efficiency and credibility throughout the supply chain.



## Strong demand and a very low vacancy rate

Our tenants show continued strong demand for premises, which has contributed to this low vacancy rate. As of 31 December 2017, the vacancy rate was 1.0% (1.4) – a low figure even within the public sector properties segment. We develop our property holdings in collaboration with customers and we generally always have a customer with us in new transactions.

**Vacancy rate**



## Long leases up to 25 years

The majority of Specialfastigheter's leases are signed with public-sector operations and have long leases that often run for up to 25 years. The average remaining term in our contract portfolio is 12.6 (13.2) years, which results in sustained long-term security for the company. Rental income is secured for a long period and derives from creditworthy tenants who have non-existent credit risks.

**Average term**



# Our property portfolio – secure facilities

## From Ystad to Haparanda

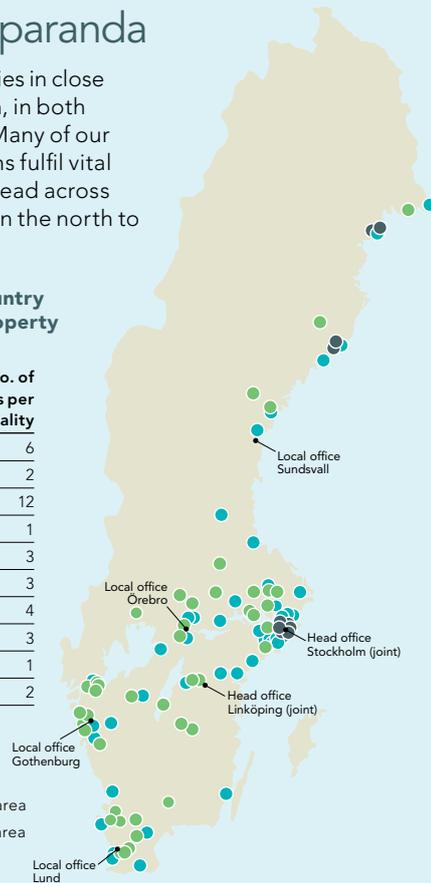
Specialfastigheter has properties in close to 70 municipalities in Sweden, in both small towns and major cities. Many of our customers and their operations fulfil vital societal functions, and are spread across the country, from Haparanda in the north to Ystad in the south.

### The ten municipalities in the country in which we have the largest property holdings

Municipality	Total owned floor space, sq m	No. of properties per municipality
Stockholm	332,651	6
Kumla	51,215	2
Södertälje	43,813	12
Solna	34,967	1
Kramfors	30,830	3
Luleå	29,739	3
Gothenburg	27,680	4
Umeå	26,330	3
Härnösand	23,911	1
Linköping	22,985	2

### Business areas

- Prison and Probation Service business area
- Defence and Judicial System business area
- Institutional Care and Other Special Operations business area



## Portfolio refinement

Our movement toward focusing entirely on secure facilities continued with the acquisition of Rättscentrum in Luleå and taking possession of an office property in Kista with FOI as the tenant. We also acquired secure facilities with development potential in Värnamo (possession in 2018) for SiS and a number of land areas adjacent to our properties for potential future expansion. Empty properties that are no longer in demand were sold, for example Malmö central prison, the old Smälteryd prison in Mark municipality and a training area in Skövde.

## Increased property value

Our property value at the end of 2017 amounted to SEK 25 billion, up around SEK 2 billion year-on-year. The increase in the market value of the investment properties is largely due to investments and acquisitions, and the fact that we lowered our calculation parameters and inflation assumptions in the short term.

Market value, investment properties, SEK

25  
billion

## Customised, sustainable secure facilities

The common denominator among our customers is their security requirements, and our role is to ensure that there are secure, adapted premises that help them fulfil their societally vital assignments. For us, this is a matter of understanding and creating a close dialogue in order to jointly create effective comprehensive solutions – the right property or premises for the right operations. Needs and conditions often change over time, which means we need to be proactive and receptive in order to adapt our offering in a way that enables customers to develop their operations.

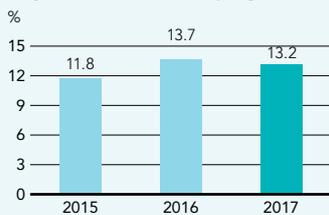
Specialfastigheter's properties should be sustainable throughout their life cycle. For this reason, we work to reduce energy use and CO<sub>2</sub> emissions, pave the way for environmental certification of the buildings and proactively choose materials that have a low or negligible impact on the environment and health.

# Strong financial position

## Stable return

We must manage our property holdings with a sustainable, long-term approach and with total efficiency from an ownership perspective. Our profitability target as set by the owner is an adjusted return on equity with a target of 8.0%. We exceeded our target by a wide margin, and on 31 December 2017 the result was 13.2%. Our strong return is mainly due to our long leases – which provide us with stable cash flows – and the low interest rate level of recent years. Our growth is also enabled by the fact that half of our earnings are reinvested into operations.

Adjusted return on equity



## High equity/assets ratio

Our capital structure target determines how we finance our assets and is thus an important control instrument for us in terms of our level of risk. Core parts of the capital structure include equity and interest-bearing liabilities, as well as the relationship between these two. The equity/assets ratio is the measure we use to manage the capital structure. To achieve clarity in our benchmarking while also enabling the necessary flexibility in terms of our financing, the target is expressed as a range, which is 25–35%. As of 31 December 2017, the equity/assets ratio was 33.8%.

Equity/assets ratio



## Secure owner

Specialfastigheter is one of 48 state-owned companies and is owned entirely by the Swedish state. We are administrated by the Government Offices of Sweden, which pursue active corporate governance. Having a long-term, stable owner in this way provides a secure future.

The state considers the integration of sustainability issues into operations to be a natural part of the company's long-term strategy and business development. We are also expected to develop the company by taking advantage of opportunities linked to technical developments and innovation.

We are

# 100%

owned by the Swedish state

## High credit rating

We have held a very high credit rating from Standard & Poor's on our long-term borrowing for a long time now, having been awarded an AA+/Stable outlook. This is thanks to our unique position as a landlord in the secure facilities niche, our low business risk profile with a highly stable and predictable cash flow based on long-term leases with government authorities, as well as our strong liquidity position and the fact that the Swedish state is our owner. This score was confirmed once again in December 2017 and shows that we are a company with a positive future outlook.

We have a rating of

# AA+

Stable outlook  
(Source: Standard & Poor's)

## Operating environment, market and targets

Demand for secure facilities is set to increase and Specialfastigheter is well-equipped to meet the need for both new builds and renovations of older buildings. Specialfastigheter's five core strategic areas have been developed based on the state's ownership policy, the company's targets and the UN's sustainable development goals. Creating customer value is a key issue for us.



SiS LVM home in Hessleby, Mariannelund



# Greater need for secure properties

All indications point to an increase in the need for secure properties over the next few years. Many authorities and departments will need to review their requirements relating to both physical protection and information security. More resources for the police will likely lead to more arrests, a greater number of trials and, in the end, a need for more places in juvenile care homes and prisons.

Security requirements in every area are on the rise in an uncertain world. Wider society's awareness of the risks of IT systems that fall into the wrong hands increased in 2017. We saw how law enforcement authorities were exposed to a wider range of threats involving physical attacks against police stations. Together with the terror attack in Stockholm in 2017, these resulted in intensified demands on both tenants and property owners to review technical and mechanical protection, and physical barriers.

There are no indications that this trend is likely to be reversed in the near future – rather, the trend is showing a broader threat and a greater need for efforts on the part of property owners to ensure a safe and secure environment for tenants. This applies first and foremost to the police and judiciary, but also to authorities that handle sensitive information and societally vital operations within the areas of communication, energy or other areas where attacks could have serious consequences for the authorities.

Increasingly stringent security requirements are also exposing the security shortcomings that have built up over the years, with businesses not having invested sufficiently to reach an acceptable security level. This could be a case of premises that are not secured in the right way, alarm installations, property automation, windows that can handle damage, privacy protection, personal security and, last but not least, secure IT systems.

## Greater needs within the judicial system

The Swedish Police has been undergoing a major reorganisation for some time, and has also received an increased budget from the Government; in 2018, the budget is being raised by SEK 2 billion, with the target of giving the police a total of SEK 7.1 billion more by 2020. Another target set by the government is to recruit 10,000 new police personnel over the next seven years. The major challenge is to find

candidates in a difficult labour market. If the Police succeeds in increasing its workforce, the trend of unsolved criminal investigations and fewer convictions should also be reversed. Pressure is also increasing on the Prison and Probation Service, which has an increasing need for places at prisons. The Swedish National Board of Institutional Care currently needs to invest some SEK 1.5 billion in redevelopments and extensions of its juvenile care homes and addiction centres.

## The Prison and Probation Service is being modernised

Since 2013, the Prison and Probation Service has decommissioned a number of prisons due to a surplus of spaces and new functional and work environment-related requirements that mean some older premises no longer fulfil modern requirements. The authority has developed a plan for modernising many more prisons and our assessment is that this will considerably increase our project volume in the future. The Prison and Probation Service has also invested major amounts in security-enhancing measures over the past few years. Specialfastigheter is involved at every stage, monitoring the market and offering our services in competition with others.

## Increasing focus on public sector properties

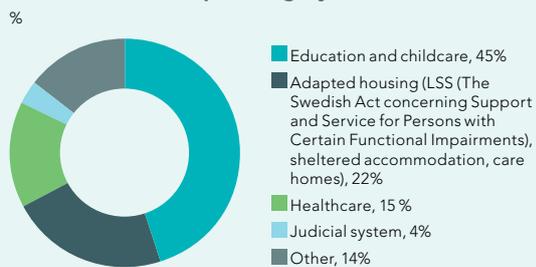
The market for public sector properties remained robust in 2017, although the transaction volume fell slightly compared to 2016, when properties worth SEK 14.07 billion changed owner. The largest transaction of the year was Intea's acquisition of academic premises at Linnaeus University, Balder's purchase of central Hallonbergen and Hemsö's acquisition of the leasehold and accompanying project to build premises for Mälardalen University.

For investors, this sector is interesting with a low risk as the tenants are state, municipal or county-owned. The leases

Public sector properties transaction volume



Transaction volume per category



Diagrams: CBRE

## Trends that affect us

### Increasing focus on security

The security situation has deteriorated both in Sweden and globally. There is greater awareness of security issues in line with globalisation, terrorism, new technology and business models, IT scandals and increased criminality. More companies are demanding secure facilities and new security solutions, including in the area of information security.

### Fierce competition in the sector

The market for secure facilities remains buoyant and competition is fierce for customers with long leases. Many investors are looking for investments with low levels of return, and ideally green. The state constantly reviews subsidies to authorities and customers enhance their efficiency. Sustainability aspects are often crucial in terms of the choices customers make.

### Technological development presents risks and opportunities

The communication flow is accelerating and moving in new directions. Innovation and digitalisation entail major opportunities but also impact on security and can lead to shortcomings in terms of security. Technological developments could counteract the threat of climate change and contribute to a reduction in the burden on the environment by way of more efficient energy use, for example.

### Strict requirements for attracting skills

Competition for the best talent is becoming increasingly fierce. The company's brand and operations must be perceived as meaningful and managed in a sustainable manner. Nowadays, an attractive employer must offer skills develop-



ment, challenging work assignments, a good work-life balance and freedom with responsibility. Long-term strategic and mutually beneficial collaborations are needed in order to form partnerships with the most competent suppliers.

are generally long – often around ten years – and the holdings deliver a secure yield even if the economy falters; something which has mainly attracted pension capital. Signs began to appear during the autumn that the market for new-builds is faltering somewhat, and this will likely lead to more players looking to public sector properties. Continued population growth in practically every area of Sweden – the forecast is for 11 million people by 2027 – will intensify the need for schools, care facilities and other societal functions.

The largest companies involved in public sector properties include Akademiska Hus, Castellum, Hemsö, Hemfosa and Samhällsbyggnadsbolaget (SBB). Vasce and Intea are the main companies within Specialfastigheter's area to create a niche in public sector properties with security requirements. In 2016, Intea acquired the Garnisonen property in Linköping with tenants such as the Swedish Police, the National Board of Forensic Medicine and the Swedish National Courts Administration. Vasce owns and manages properties such as the police station in Flemingsberg, Attunda district court and the remand centre in Sollentuna.

More players and increased competition has led to an increase in property prices, which has in turn led to yield requirements being suppressed. It is also clear that more property companies want to participate in procurements of new projects or when authorities look for new premises. Competition for leases is putting pressure on prices, and

even rents to some extent. The challenge for Specialfastigheter is to continuously be one step ahead of the other companies in a competitive market, and we are able to do this thanks to our 20 years of experience and superior expertise in the field of security.

### Sustained low interest rates

In 2017, Sweden's GDP increased 3.3% and the National Institute of Economic Research (NIER) forecasts that GDP will increase again in 2018 by 2.9%. The expansionary budget will drive growth and employment next year, while the upturn will be held back by the increasing lack of labour with the necessary skills.

Market rates rose slightly in 2017, and the ten-year rate (Swedish bonds) was 0.78% at 29 December 2017. To stabilise inflation around 2% – the Riksbank's target – an expansionary monetary policy needs to be maintained. The Executive Board of the Riksbank has decided to keep the repo rate unchanged at negative 0.50%. This rate is expected to be slowly raised for the first time in mid-2018, and according to the Riksbank's forecast, it should reach 0.0% sometime in 2019. Every indication is that we will remain in a low interest rate situation for a long time to come. For property companies, there is some uncertainty surrounding political decisions concerning the interest rate deduction and "packaging" into companies when selling properties.

# Collaboration surrounding sustainability leads to commitment and results

Our daily work on sustainability is based on the state's ownership policy, the company's strategies and the UN's sustainable development goals. Thanks to close collaboration with our stakeholders, our operations are developed and improved from a sustainability perspective – socially, financially and environmentally.

As a state-owned company, Specialfastigheter must act in an exemplary manner. This involves managing and developing all areas of its operations in a sustainable manner, including responsibility for, and analysis of, business opportunities and risks relating to the environment, human rights, working conditions, anti-corruption, busi-

ness ethics, equal opportunities and diversity. Out of the UN's 17 sustainable development goals, we have chosen to focus on five in particular: Sustainable energy for all, Sustainable consumption and production, Fight climate change, Ecosystems and biodiversity and Implementation and global partnership. Specialfastigheter has signed up

## Stakeholder dialogue

In their dialogue with us, our main stakeholders have highlighted the following areas as having particular importance:



to both the UN Global Compact and the Government's Fossil Free Sweden initiative. We have been reporting in line with GRI guidelines for ten years now, including in line with 2016 GRI Standards: Core option since 2017.

### Engaging stakeholder dialogue

The dialogue with our stakeholders helps us to develop and improve our operations, not least from a sustainability perspective. The stakeholders, who both influence and are influenced by our operations, therefore have a major impact on the sustainability areas we should focus on. Our main stakeholders include customers, suppliers, employees, investors and our owner. Naturally, it is not always possible to pursue a direct dialogue with our customers' customers, but our tenants make sure that they represent them and convey their interests during our discussions.

We pursue a regular dialogue with stakeholders as part of our day-to-day operations. In addition to this, more comprehensive, annual discussions and workshops are held with one or more selected groups. This year, we chose to extensively interview a number of customers concerning their views of sustainability. The results showed that customers largely prioritise sustainability issues that affect them directly, such as energy use, choice of materials (based on both an environmental and health perspective) and strong finances. On the initiative of the Swedish Armed Forces, we held a workshop under the theme of

energy efficiency enhancement, and we replaced light fittings and sources in partnership with the Swedish Prison and Probation Service to reduce our energy use.

Our stakeholder dialogue increasingly includes the issue of sustainability; suppliers are interested in collaborating in terms of sustainability and are often positive about the sustainability requirements we set. Social requirements at our construction sites have been strengthened and we conducted four on-site audits during the year – two relating to construction and two for IT and service. The investors group considers a broad view of sustainability to be important for their decisions in relation to Specialfastigheter. We issued our first green bonds in November. Interest was very strong and the bonds were oversubscribed.

The dialogue with our owner – the Swedish state – surrounding sustainability issues is integrated with other ownership issues. Our owner emphasised the importance of the supply chain and human rights during the year. We also conducted a specific risk analysis relating to human rights. The risks we identified primarily relate to risks in the supply chain linked to the production of the products and services we purchase. These include the risk of employment and working conditions being breached, substandard work environments, discrimination and child/forced labour. We have appointed risk owners and measures are either being planned or have been taken to mitigate all risks.

## Materiality analysis

The basis of the management's materiality analysis is formed by the results from the various stakeholder dialogues, operating environment assessments from the construction, property and financial sectors, a CSI survey, a risk analysis concerning breaches of human rights and an organisational analysis of Specialfastigheter. More detailed information about all our stakeholders' expectations can be found on the previous page. Management has then prioritised the most significant sustainability issues based on their impact, stakeholders' expectations and requirements, the owner's directive and business strategies. In total, ten areas have been prioritised. The sustainability area concerning use of materials has been added, as Specialfastigheter has a major impact in this area. Customer satisfaction has also been added as it is so crucial to our entire operations. Skills development has been removed as it is considered to be slightly less significant, particularly in terms of stakeholders' expectations. Sustainable property management has also been removed as we see this more as a tool for managing many of our sustainability issues, and it is described as part of the management approach. All sustainability areas are the same as last year's and are well integrated into the ongoing work of Specialfastigheter's five strategic areas.

We are also working systematically on a number of other sustainability issues, even though they are not reported in line with the GRI. Specialfastigheter's governance of and work involving our sustainability efforts are reported in detail in various chapters of the Annual Report and Sustainability Report. Page 52 contains a thorough description of how we translate our prioritised sustainability areas into GRI Standards.

### Our prioritised sustainability areas

- Security
- Customer satisfaction
- Long-term profitability
- Anti-corruption
- Emissions
- Energy use
- Use of materials
- Work environment
- Equal treatment
- Sustainable supply chain

# Long-term benchmarking

Specialfastigheter’s vision – to be the most secure and attractive property company promoting a safer, more secure society – forms the basis for our long-term benchmarking. Targeted efforts ensure we can maintain positive developments in the determined direction.

Specialfastigheter’s financial targets are decided by the owner, the Swedish state, and aim to ensure efficient use of resources to help maintain the company’s strong position in a competitive market. The owner and company’s management consider sustainable business to be a commercially strategic issue and the follow-up of our sustainability efforts is conducted through a dialogue with the owner, partially by following up on targets and partially by way of specific sustainability analyses. The overall strategic targets are resolved by the Board.

## Clear strategic areas to achieve established targets

To ensure clear governance, take decisions on targets and activities, prioritise and monitor operations, we manage operations based on five strategic areas:

- Creating customer value
- Best at security
- Long-term profitability
- Responsibility for the environment and climate
- Proactive skills sourcing

## UN sustainable development goals

Using the strategic areas outlined above as a basis, we analysed the UN sustainable development goals during the year and identified economic, social and environmental targets that the company’s operations affect and contribute to. We have chosen to place a particular focus on five targets: Affordable and clean energy, Responsible consumption and production, Climate action, Life on land and Partnerships for the goals.



Overall strategic targets	Target, 2017
<b>Capital structure</b> The capital structure target is for the equity/assets ratio to be in the 25–35% range.	<b>25–35%</b>
<b>Profitability</b> The profitability target is for a net profit, after including changes in value and associated deferred tax, of 8% of average equity. Profitability is a variable target whose level is adjusted depending on the composition of the property portfolio.	<b>8%</b>
<b>CSI</b> More satisfied customers via improved customer dialogue, CSI.	<b>No target set in 2017</b>
<b>Diversity</b> Increase the number of employees with foreign backgrounds.	<b>10%</b>
<b>Anti-corruption</b> Continued zero-tolerance towards corruption.	<b>No corruption</b>
<b>Environment and climate</b> Reduce CO <sub>2</sub> emissions by 75% between 2012 and 2030 (2012: 9 kg CO <sub>2</sub> /sq m Atemp).	<b>Reduction of 35% (from 2012)</b>

	Result, 2017	Target, 2018	Target, 2022
	33.8%	25–35%	25–35%
	13.2%	8%	8%
	65% (Dec 2016)	67%	No target set
	10%	12%	15%
	No corruption	No corruption	No corruption
	Reduction of <b>47%</b> (from 2012)	Reduction of <b>52%</b> (from 2012)	Reduction of <b>62%</b> (from 2012)

### Ideal position for 2022

“We are a financially stable partner who continuously produces updated plans for premises’ requirements together with our customers, both now and for the future.”

“We develop sustainable internal and external environments and acquire, redevelop and build to the value of at least SEK 1 billion per year.”

“Management is functioning so efficiently, securely and sustainably that customers can focus entirely on their core operations.”

“All leases have a green appendix and an action plan drawn up with the customer that show how we achieve our environmental targets.”

“Our entire organisation and work is permeated by sustainability, with employees being engaged in everything that happens, learning from each other, developing, performing strongly and having fun at work.”

### Target for 2030, environment and energy

In terms of the environment and climate, it is important to look beyond 2022, which is why we have chosen to look ahead to 2030.



Read more about our target for 2030 on pages 30–31.

# Five core strategic areas

Our strategic areas serve as tools in our efforts to more clearly manage, take decisions on targets and activities, prioritise and monitor operations. An open dialogue and strong collaboration with different stakeholders is crucial to constantly developing and improving the company in line with our operating environment.

## Creating customer value

We are to provide secure, adapted premises in a commercial and cost-effective manner, thus contributing to our customers' operations. Our aim is to work as closely to our customers as possible: to understand them and pursue a close dialogue and thus ultimately offer the right premises for the right operations.

*Read more on page 23.*

## Best at security

Security is one of Specialfastigheter's core values and security issues are always our highest priority. We aim to be the property owner best able to meet both its own and its customers' high expectations relating to security, expertise and support in an innovative and responsible manner.

*Read more on page 24.*

## Long-term profitability

Long-term profitability is a crucial aspect of fulfilling the long-term task set by our owner and of satisfying our customers' high expectations throughout the entire lease period. We must therefore manage our property holdings sustainably and with total efficiency from an ownership perspective.

*Read more on page 27.*

## Responsibility for the environment and climate

Our operations and properties affect the environment throughout their lifecycle, from planning and construction to management, redevelopment and demolition. We adopt a long-term approach and endeavour to be an environmentally sustainable property company in every area of our operations, thus not contributing to climate change.

*Read more on page 30.*

## Proactive skills sourcing

In order to achieve our targets, we need the right skills – something for which there is fierce competition. Proactive skills sourcing is therefore a central strategy for Specialfastigheter. Our commercial and organisational ability is based on strategic choices and activities. We are a geographically diverse organisation, which means we need independent and committed employees who can provide every customer with the service they demand.

*Read more on page 32.*

# ■ Creating customer value

Everything we do takes place in close consultation with our customers. Together we create functional, cost-effective premises that meet their needs and requirements. In the end, it is a matter of being able to offer the right property or premises for the right operation.

Specialfastigheter has a clear assignment – to supply premises in a commercial and cost-effective way to operations with security requirements. For this reason, we focus purely on our property portfolio and have created an increasingly clear niche for ourselves linked to our assignment. Being the leader in secure facilities places stringent requirements on our properties, our collaboration with customers, our monitoring of the operating environment and how we perform. Our experience and expertise are our strengths and they have led to us becoming the best at secure facilities.

## Daily contact with customers

Each business area has a responsibility for its customers, and thus in every location in which we operate. Close dialogue and strong collaboration at different levels – locally, regionally and centrally – is crucial in terms of pinpointing the most significant areas and thus helps us to prioritise development work. Regular, structured meetings that are followed up provide valuable information for both our short- and long-term planning. Our service technicians and property managers also have daily contact with customers. The stakeholder dialogue is also an important collaborative forum (see page 18).

In order to ensure efficient planning, our work is based on long-term management plans produced for each property. These management plans guarantee long-term maintenance,

performance quality, volume control and clear follow-up procedures. Read more about these aspects on pages 38–39.

## Technology for better efficiency and sustainability

By using proven new technology in our properties, we are able to enhance the efficiency of our deliveries to customers, follow up more effectively and justify our decision-making process. Digitisation of our property automation processes and information flows improves information security while increasing searchability and accessibility. We continued to develop our platforms for communication and property automation during the year, with a focus on operational reliability and information security.

We work to provide sustainable property management in collaboration with our customers. We have converted our use of natural gas to biogas at several of our facilities in order to move away from fossil fuels and reduce our emissions. Our solar panel facility – used to power the heat pumps at the property in Tygelsjö – has also become operational. Read more about our energy initiatives on page 30.

## Regular customer surveys

To ensure that customers are satisfied with our premises and our service, we conduct customer surveys that provide us with tangible proposals for improvement. Read more about our latest CSI survey on page 38.

### Strategies

Together with our customers, continuously produce updated plans for premises' requirements, both now and for the future.

Develop sustainable internal and external environments and acquire, redevelop and build to the value of at least SEK 1 billion per year.

Ensure delivery that is so efficient, secure and sustainable that customers can focus entirely on their core operations.

All leases are to have a green appendix and an action plan drawn up with the customer that contribute to the joint achievement of our environmental targets.

Enhance the efficiency of our property management by following digital trends and embracing new and tested technology.

Attract new customers by way of active market analysis and attractive offerings.

### Examples of activities undertaken in 2017

Several investigations for the Swedish National Board of Institutional Care (SiS) concerning extra places for the treatment of young people and addiction. Investigative projects for the Swedish Prison and Probation Service, many of which are included in its infrastructure plan. Divestment of Malmö's central prison to municipal company MKB in Malmö, which will convert the property into housing.

Redevelopments, extensions and new build projects for SiS at Folåsa, Johannisberg, Ljungbacken, Ljungaskog, Björkbacken and Klarälvsgården. Negotiation with Region Jönköping County about acquisitions of two SiS properties for the treatment of addiction in Värnamo (lease signed in 2018). Extensive redevelopment and renovation, remodelling and extension at the Hällby correctional facility. A number of land parcels adjacent to various properties were acquired to enable future expansion.

Security-enhancing measures at nine penal institutions for the Swedish Prison and Probation Service. Renovation and redevelopment of Kronoberg remand centre in Stockholm.

Green appendices for 87.9% of our leases, of which 98% have joint action plans.

Digitisation of our processes and information flows to ensure enhanced information security. Development of our platforms for communication and property automation, with a focus on operational reliability and information security.

The Swedish Transport Administration is highly likely to become a new customer of ours in 2018 as we are planning to acquire eight properties with traffic centres.

## ■ Best at security

Being best at security means we want to be the property owner best able to meet both its own and its customers' high expectations relating to security, expertise and support in an innovative and responsible manner. We have our own niche within public sector properties – secure facilities – as well as four security areas that have been our principal focus.

Both our operations and those of our customers require us to maintain high standards of proficiency, confidentiality and commercial prowess. In many cases, national security may be involved. Our work relating to security is described clearly in our business plan and our joint business management system. We work closely with our customers and are highly sensitive to their needs, but we always respect their integrity during any collaboration.

Our principal and our customers should feel secure with us at every stage – from planning and construction to management and development. Security is therefore one of

Specialfastigheter's core values and security issues are always our highest priority. For this reason, we established the term "secure facilities". By this, we mean properties that are adapted for operations that require security in some form.

In order to accomplish our task and achieve our vision – the most secure and attractive property company promoting a safer, more secure society – we have mainly concentrated on four different areas of security, namely: personal security; physical security; operational reliability; and information security.

### Focus on four security areas

1

#### Personal security

The area of personal security comprises the safety and security of our employees, partners and customers. Our incident reporting system provides us with extensive knowledge of risks and allows us to proactively take preventive measures. Some of our employees work in environments where an increased understanding of their own behaviour can reduce their exposure to risk and lead to increased safety and security. In order to prevent, manage and deal with threats, violence

and other risks in the work environment, we must adopt a shared view and have a well thought-out approach to these issues. We therefore continued to train our staff in how to handle threats and violence in the work environment throughout 2017.



2

#### Operational reliability

Many of our properties fulfil important societal functions and therefore require a high level of operational reliability around the clock, which is why improvements are constantly being made to our property management organisation – in order to lead to greater efficiency and security. Rapid technological developments within the area of property automation demand robust operating systems, good planning and conscientious employees, which we supply through our own

staff who are not only well acquainted with the properties and the technical installations, but also customers' needs.

We introduced a new management model during the year with a clearer focus on the property automation management and technical networks of the properties over their entire life cycle, with clear roles and division of responsibility. We also introduced a new structure for planning and monitoring planned maintenance in order to ensure the right maintenance is carried out at the right time and the right location.



## Our most important tools to make us the best at security

### Knowledgeable, security-vetted staff

The skills, awareness, interest and commitment of our employees are all factors for success that ensure we succeed in our security efforts. Continuous skills development in the area of security is therefore a natural part of all employees' work. Security also forms a central part of our recruitment process. We have a tried-and-tested concept using a special security assessment that covers all employees and reduces the risk of incorrect recruitment.

### Continuous risk analyses

By systematically identifying, evaluating and managing operational risks, we gain an understanding of how we can effectively keep them under control. The most significant risks to operations are followed up at least twice a year during management reviews and once a year by the Board. The international risk management standard ISO 31000:2009 guides our efforts in this area. Read more about our risk management on pages 45–49.

### Incident reporting

Through continually following up on reported incidents, we create the right conditions for early follow-up of near-accidents, injuries and circumstances that may have a negative impact on assets requiring protection, such as individuals, tangible and intangible resources, the environment, our credibility or our finances. Adjustments were made on an ongoing basis during the year with the aim of creating better conditions for us to report and manage incidents.

High-risk conditions, near-accidents and injuries suffered by employees, consultants and contractors are reported within registered work environment incidents. During the year, 16 work envi-

ronment incidents were reported in our incident reporting system, equal to the 16 reported in 2016 and down from 22 the year before that. No work-related fatalities occurred during these years.

### Ethics and anti-corruption

Specialfastigheter's work is founded on our core values. For us, an upright, ethical approach to all business relationships is a given – we are to be a strong, reliable, business partner. We have an internal sustainability policy and a Code of Conduct that describe the company's requirements regarding our employees and which form the basis of how each of us should behave in relation to ethical matters. To ensure that information and knowledge concerning business ethics is accessible throughout the organisation, we carry out annual workshops concerning ethical matters involving all employees.

Specialfastigheter never accepts bribes or any other form of corruption, and we have had a whistle-blower system in place since autumn 2013 that enables people to draw attention anonymously to irregularities or unsatisfactory conditions at our organisation. Two suspected cases were reported in 2015; these were investigated but no irregularity was able to be proven. No suspected cases of bribery or corruption were reported during 2016 or 2017.

### Continuity planning

Continuity planning is based on prioritised operations, that is, the most important core processes and support processes as determined by company management. These are the processes that must be prioritised when returning to normal or other decided level of operation in the event of breakdowns or catastrophe.

## 3

### Physical security

Physical security is important in terms of our ability to establish a high level of security to protect both our own operations and those of our customers. Physical security mainly consists of technical and mechanical security solutions, such as physical access protection, electronic access systems, automatic fire alarm and burglar alarm installations, reinforced doors, windows, roofs and wall structures.

During the year, Specialfastigheter made internal efforts concerning systematic fire prevention, and in late February a special, targeted training course for our local security coordinators was held. We also conducted fundamental fire safety training at many of our local offices.



## 4

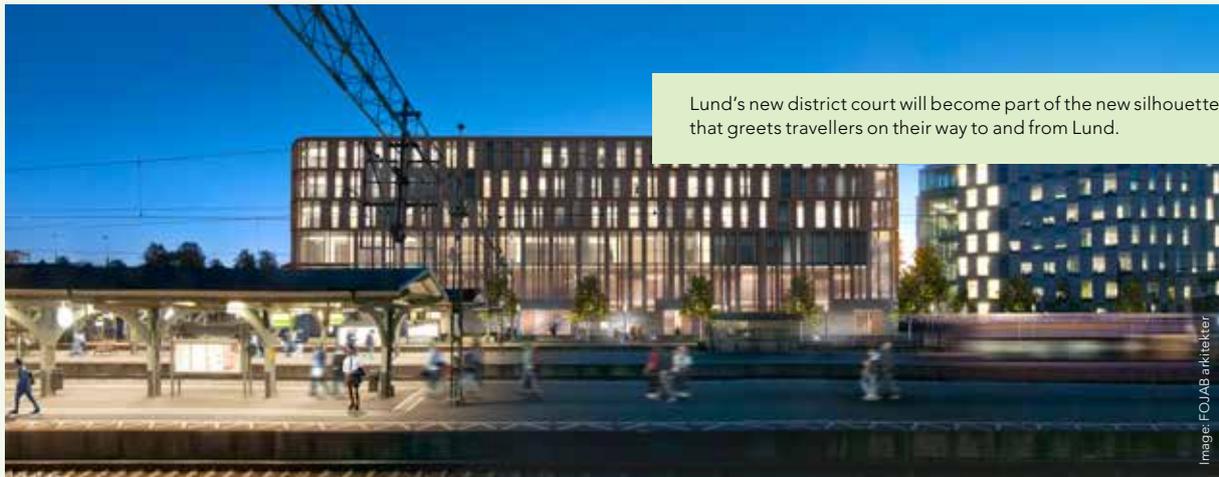
### Information security

Protecting both our own and our customers' information assets is a high-priority issue for us. We must be able to trust that all information – both our own and that which we manage on behalf of our customers – is always accessible, correct, traceable and protected against unauthorised access.

Our customers, we ourselves and our operating environment all undergo changes, meaning we invest a lot of time in adjusting our security protection agreements and accompanying security instructions. We must ensure our customers feel secure that we are honouring our commitments specified in these agreements.

In early May, DNV GL carried out a periodic audit of our information security management system (LIS), and the results were positive.





## LUND'S NEW DISTRICT COURT

# How to combine security and aesthetics

A court is an official institution that should be perceived as open and inviting, while being safe and secure. There are strict requirements attached to Specialfastigheter's completion of the new district court in Lund.

Specialfastigheter is building a new district court right in the centre of Lund, neighbour to the city hall and central station, and thus in a prominent position in the city. Together with the other developments and expansion of the city west of the railway, the building will become part of the new silhouette that greets travellers on their way to and from Lund when completed in spring 2018.



Göran Cumlin,  
Specialfastigheter

What is the best way to tackle the seemingly contradictory requirements of ensuring openness and access to light along with secrecy and external protection when building a secure facility? We put this question to Göran Cumlin, Projects and Development Director at Specialfastigheter.

### What differentiates a district court from other buildings?

“There need to be different zones within a district court building – for the public, prisoners, judges and lawyers, the staff of the district court and so forth. The building must be constructed in a way that ensures these different groups only meet in the courtroom. A district court is also filled with hidden technology. Each room is designed like a mini film studio, with a lot of effort being put into getting the right lighting and acoustics. This places particular demands on the design of every aspect, from walls, doors and windows to locks, alarms and lifts.”

### How do you combine security with a welcoming feel?

“In the case of Lund district court, we have chosen to work with warm materials such as ash on the walls, a lot of light and a reflecting pool in front of the window. On the outside there is a copper facade and limestone plinths – simple and sustainable natural materials that are durable, age beautifully and give the building an air of dignity and authority. In addition, what we refer to as the public areas are specially designed to take accessibility requirements into consideration.”

### Were there any special circumstances in Lund?

“The site is relatively small and tightly packed between the new city hall, railway, a park and a cycle path. Thanks to our positive collaboration with Lund Municipality, we were given permission to build a temporary road through the park. The limited space has, however, placed major demands on our planning of material transportation and other major deliveries to the site.”

### This major construction project is a collaboration between many different stakeholders – how has it worked?

“We have planned and built the building in collaboration with NCC by way of a collaborative contract. Our collaboration with NCC, the customer (the Swedish National Courts Administration) and the user (Lund district court) has been excellent. I am convinced that this will be Sweden's most attractive and modern district court!”

## Long-term profitability

Long-term profitability is a crucial aspect of fulfilling the task set by our owner and of satisfying our customers' high expectations throughout the entire lease period. We must therefore manage our properties sustainably and with total efficiency from an ownership perspective.

### Focus on reducing the state's total costs

The owner's intention is for us to work with our customers to minimise the state's total costs. We can achieve this by providing secure, adapted premises in a commercial and cost-effective manner, thus contributing to our customers' operations.

Our target equity/assets ratio determines how we finance our assets and is thus an important control instrument in terms of our level of risk. To achieve clarity in our benchmarking while also enabling the necessary flexibility in terms of our financing, our owner's target equity/assets ratio is expressed as a range, which is 25–35%. The result for 2017 was 33.8%. Another target used to ensure long-term profitability is adjusted return on equity of 8%. The result for 2017 was 13.2%, which shows that we are efficient in terms of our business and that we have a strong and effective financial management system.

### Improved governance and monitoring

Monitoring operations based on established targets is an important way of checking whether the company is heading in the right direction to achieve long-term profitability. In 2016, we looked at how we can improve governance and monitoring of our operations, which led to us implementing these efforts in 2017 based on the conclusions drawn and the decisions taken. To facilitate operations, we will procure

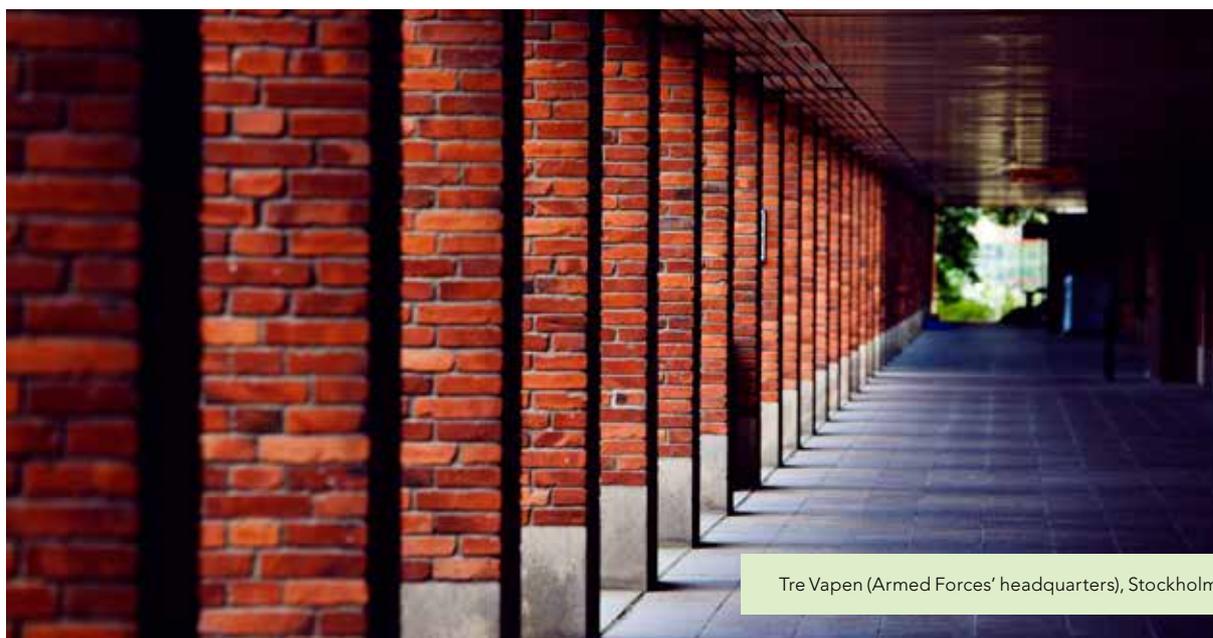
and introduce IT support in 2018 for operational management, the aim of which is to offer operations better system support for planning, follow-up, analysis and reporting.

### IT development that creates opportunities

We work strategically to ensure we have reliable IT support in place that is well adapted to operations and offers a high level of availability. Efficient and secure IT is a basic condition of efficiency at our properties and gives us the opportunity to improve and develop our operations so we can meet our customers' needs. This issue is becoming increasingly important as digital developments gather pace, and we are working proactively to identify the opportunities digitisation presents us as a company.

### A cost-effective and sustainable supply chain

Long-term profitability cannot be achieved without an efficient purchasing process. It should be characterised by professional conduct and promote a cost-effective, secure and sustainable supply chain. Procurements and agreements at Specialfastigheter are handled centrally by our purchasing unit, while call-offs are handled locally in the organisation for properties or projects. Together with our suppliers, we develop requirements and drive forward energy projects concerning sustainability issues in line with our Supplier Code of Conduct. Read more on the next page.



Tre Vapen (Armed Forces' headquarters), Stockholm

## Long-term partnerships that focus on security

### Our suppliers must share our values

Trusting supplier partnerships are vital in terms of our ability to give our customers appealing and sustainable offerings. It is important that our suppliers share our values, and is a precondition for long-term collaboration. Signing our Code of Conduct is mandatory when new central contracts are entered into, in addition to general and product-specific requirements primarily relating to finances, the environment and security, except for contracts involving both low values and low risk.

When suppliers sign our Code of Conduct, they accept the Code's guidelines and requirements relating to working conditions, human rights, the work environment, environment and corruption. Some 80% of suppliers under central framework agreements in 2017 signed the Code of Conduct, meaning that 74% of our total purchases are now encompassed by a thorough control and follow-up process involving the Code of Conduct and self-assessments.

### Active risk management

The number of sub-suppliers varies for different contracts and changes over time, which also applies to the risks in the supply chain. Annual purchasing, mainly construction contracts, specialist expertise and energy, amounts to SEK 1–1.5 billion. We currently engage about 1,200 suppliers, most of which are domiciled in Sweden.

Specialfastigheter conducts continuous risk analyses within a range of areas. A risk analysis of the supply chain was conducted in 2016, while another in 2017 focused on human rights. These analyses have identified a number of risks – particularly in the supply chain – linked to the environment, human rights, the work environment, working conditions and corruption. Risks are also identified continuously through monitoring of the operating environment and monitoring linked to suppliers in the form of self-assessments and on-site audits. The risks we have identified in the supply chain are summarised in the table to the left, along with their impact.

### Clear roles and responsibilities lead to good governance

To capitalise on value in the supply chain and apply a well-planned and structured work approach, we have a purchasing organisation in place that has clearly defined roles and responsibilities for working proactively together with purchasers in the organisation. The central purchasing unit is responsible for defining strategy, procurement and signing contracts. By categorising our purchases based on various market conditions, we can specify our needs and requirements for products and suppliers and develop individual strategies for each contract area. Central framework agreements account for 95% of our total purchasing. Support systems for all parts of the purchasing process from procurement and quotation requests to call-offs and invoicing ensures efficient handling as well as excellent governance and monitoring.

### Requirements and checks reduce risks

Specialfastigheter has a documented process for setting requirements, controls and monitoring our suppliers and contracts. To minimise sustainability risks, we establish sustainability-related requirements in our supplier agreements and Specialfastigheter's Code of Conduct serves as contractual conditions. Supplier agreements may include requirements for systematic environmental and work environment-related efforts, registration of materials in the SundaHus database, reporting waste statistics and results of safety inspections.

We conduct regular delivery assessments on call-offs from framework agreements based on the criteria of quality, delivery performance and communication. For major and medium-sized construction contracts and consultant assignments, we use an assessment template that includes security, organisation, sustainability, customer benefit and information security.

Our audits are an important part of minimising sustainability risks and improving contracts and delivery performance. Both off-site audits of suppliers' self-assessments

Supply chain risks	Part of supply chain		
	Services	Contracts	Products
<b>RISK</b>			
<b>Environment</b>			
• use of environmentally hazardous materials and chemicals		●	●
• CO <sub>2</sub> emissions	●	●	●
• energy use			
• waste			
<b>Human rights</b>			
• discrimination and harassment	●	●	●
• forced labour in production plants			
<b>Working conditions</b>			
• unfair wages			
• unjust and unfavourable working conditions	●	●	●
• difficulty organising unions			
<b>Work environment</b>			
• risk of falling			
• risk of collapse			
• risk of demolition			
• risks linked to detonation			
• risks linked to hazardous substances	●	●	●
• heavy lifting			
• deficient work environment when manufacturing building materials			
<b>Corruption</b>			
• giving and receiving bribes	●	●	●
<b>Services</b> (specialist expertise, IT, technical consultants, administrative consultants) <b>Contracts</b> (construction, renovation, land management, building materials) <b>Products</b> (energy, office materials, maintenance materials)			
			



and on-site audits are carried out in order to assess our supply chain against the sustainability requirements we place on our suppliers.

The results of these audits revealed differences in levels of awareness and systematic methods in different industries, and variations depending on the size of the supplier. We have also noted that there are shortcomings in terms of systematic efforts relating to the organisational and social work environment, as well as proactive anti-discrimination efforts in line with the Swedish Discrimination Act. Several of the audited suppliers lack systems for setting requirements and monitoring their own suppliers. This is an important area for us to work on given the large amount of significant risks lower down in the supply chain.

**Significant activities in 2017**

- Risk analysis for human rights carried out
- Four on-site audits carried out based on the Code of Conduct
- Launch of supplier portal for monitoring and development

**Central framework agreement**

The term central agreements refers to framework agreements and supplier agreements in support of the organisation's general purchasing requirements and which fully comply with our process for inspection and monitoring. Because the nature of a small number of the central framework agreements is such that their value and risk is low, they are not covered by requirements regarding our Code of Conduct and self-assessment. Locally signed one-off, low-value and low-risk agreements are not subject to the full inspection and follow-up process.

**Control, monitoring and development of suppliers**



**Quick facts on control and monitoring**

	2015	2016	2017
Number of Code of Conduct on-site audits executed	4 <sup>1</sup>	4 <sup>1</sup>	4
Percentage of new agreements where suppliers have accepted our Code of Conduct <sup>2</sup>	63%	78%	80%
Percentage of new suppliers that carried out self-assessments <sup>2, 3</sup>	57%	78%	80%

- 1) Number of audits solely concerning environmental standards.
- 2) We report the percentage of new contracts from 2016 rather than the percentage of new suppliers since it provides a more complete picture of our auditing of the supply chain.
- 3) The percentage should be related to the fact that about 80% of suppliers with new contracts are subject to full controls. Other agreements are of such negligible value and risk that checks are unwarranted.

**We comply with our agreements**

Contract compliance is one of Specialfastigheter's overall targets and is a measure of how well our requirements concerning efficiency, security and quality are reflected in our purchases. It is also a matter of credibility regarding our contractual suppliers.

Contract compliance is measured both as a percentage of the total number of transactions and as a percentage of the total call-offs from central framework agreements. Measurements are taken every quarter and the results are reported as an annual average.

The target for 2017 was an annual average of at least 90%. Contract compliance in 2017 was 91% calculated in transactions (30,000 annually) and 94% calculated by value.

# Responsibility for the environment and climate

The property sector has a major impact on the earth's resources in terms of energy, emissions and the consumption of materials. Our operations and properties affect the environment throughout their lifecycle, from planning and construction to management, redevelopment and demolition. We adopt a long-term approach and endeavour to be an environmentally sustainable property company in every area of our operations.

## UN sustainable development goals form the basis

Our energy and environmental protection work is based on the UN's Sustainable Development Goals, Global Compact, Fossil Free Sweden and national targets concerning the quality of the environment. To structure our efforts and understand how we can most efficiently contribute to the different goals and initiatives, we assembled them during the year into a joint model. Many of the UN's sustainable development goals have a link to our operations, but we have chosen to focus on five in particular:

- Affordable and clean energy
- Responsible consumption and production
- Climate action
- Life on land
- Partnerships for the goals

Using these goals as a basis, we have drawn up strategic energy and environmental goals for both the short and long term. To quality-assure our working methods, we are entering the final stage of environmental certification of our operations in line with ISO 14001:2015.

## Reduced CO<sub>2</sub> emissions by 15.6% in 2017

As a state-owned company, there is an expectation that we set an example in terms of sustainability. We previously set a target of reducing our CO<sub>2</sub> emissions by 40% by 2030 compared with the base year 2012, but as we achieved that target early in 2017, we have formulated a tougher target of reducing emissions by 75%. In the 2012–2017 period, we reduced our CO<sub>2</sub> emissions by 47%.

We succeeded in reducing our CO<sub>2</sub> emissions by 15.6% in 2017, through measures including replacing natural gas with biogas in the properties that use gas. When we replaced natural gas with biogas at Tygelsjö prison, our customer was also inspired to change to biogas for heating the greenhouse at the property, which led to us to now having an entirely CO<sub>2</sub>-neutral property. Another reason behind the reduced emissions is that Specialfastigheter signed agreements for green district heating at several properties with a major district heating supplier. All electricity we purchased in 2017 was produced by wind power.

## Numerous energy-saving measures

Energy use at our properties is one of the areas in which we have the greatest environmental impact. To reduce the consumption of electricity, heating and water, our employees ensure that the technical installations are working in the most efficient way and continuously work to optimise the operation of our technical systems. We installed solar panels over an area of 150 square metres at the Tygelsjö property in 2017. Another successful energy-saving lighting project is Kronoberg's garage, where we have used LED lighting combined with adjustments to the lights' intensity, installations of sensors and sectioned lighting. At Kronoberg swimming pool, which is connected to the Swedish Police's Headquarters in Kungsholmen in Stockholm, we have been recycling the heat from heated waste water and allowing it to heat the water for both the pool and other parts of the building for a year now. Thanks to this installation, we have been able to leverage the heat

### Total energy use in buildings

kWh per sq m Atemp



Key figures for electricity, heating and cooling during the reporting period are corrected for 2017's property holdings. Total energy use fell 2.3% year-on-year.

### Emission intensity

kg CO<sub>2</sub> eq per sq m Atemp



We reduced the emission intensity of CO<sub>2</sub> eq by 16.1% year-on-year.

## Target for 2030, environment and energy



### Affordable and clean energy



### Responsible consumption and production



### Climate action



### Life on land



### Partnerships for the goals

- Our buildings must be certifiable in an environmental classification system.
- There is to be a digital list of contents with information about the materials and substances found on the land and in the buildings for every property.
- All materials and substances in our buildings and used in property management are to have a low environmental impact and be free from substances hazardous to health and the environment.
- Construction products are to consist as far as possible of recycled raw materials/materials so that waste to landfill is minimised.
- Ideally, waste arising from our operations is to be reused or recycled.
- Green leases must be incorporated into our existing leases to enable us to reduce our environmental impact together with our customers.
- We must ensure efficient energy use by exploiting new technology and optimising existing systems in our properties.
- Energy consumed is to be produced from renewable energy sources. Specialfastigheter's vehicle fleet is to be fossil-free.
- Biodiversity and ecological compensation (within Sweden) must be managed for the land occupied by our properties.

from hot shower water that runs out into the drains. Another partnership project under way in conjunction with the Swedish Prison and Probation Service is the installation of charging points. The installations are already complete at the Hall property and more charging stations are being planned for a number of other facilities across the country. The actual energy use in terms of electricity for properties, operations, heating, cooling and hot water amounted to 199.4 kWh per sq m in 2017. The target for 2017 was 195.6 kWh per sq m. The main reason this target was not achieved was our inability to implement energy-saving measures to the required extent.

### Travel at Specialfastigheter

We reduced our CO<sub>2</sub> emissions from business travel by 6% during the year. This reduction was mainly based on the fact that many of our service vehicles are now run on biogas instead of diesel. Our air travel has increased, as has the use of our own cars in service, which is likely due to the fact that we have more projects in progress in 2017 than previous years.

### Focus on sustainable materials

The construction and property sectors account for a large proportion of the public sector's use of materials in terms of both new builds and redevelopment. By actively choosing materials, Specialfastigheter is able to reduce its negative environmental impact as well as the health risks linked to certain materials.

We adopt systematic working methods when choosing and using materials and we try, wherever possible, to phase out materials that could have a negative impact on health and the environment. All materials used to construct Specialfastigheter's buildings within the area of project and development are to be documented in SundaHus's environmental database, assessed according to their criteria and should fulfil the highest classes, A or B. The database shows whether a material contains substances

that are hazardous to health or the environment. It also makes it easy to retrieve information about where a material is located in our buildings should this come into question in the future. As our customers occasionally have special functional requirements, we need to deviate from the A and B classes in certain cases.

Specialfastigheter's target is for the amount of A- and B-classified materials within production to amount to at least 80%. This is measured annually based on the registrations in the database. In 2017, the number of A- and B-classified materials amounted to 81.5%, meaning we achieved our target. An important success factor has been the collaboration with our suppliers. We place demands on suppliers during our procurement process in terms of choice of materials and registration in SundaHus. Follow-ups and audits of the materials chosen and registered are undertaken regularly. We will continue along this path in 2018 by training our organisation and suppliers in the structure and application of the material database, working to ensure more materials are registered as part of project and management and more proposals for new materials are submitted to SundaHus for review and assessment.

Extraction of raw materials as well as the production and use of materials can lead to both environmental and social risks during the lifecycle of the material. To manage these risks, we place systematic demands on and monitor our suppliers by way of our Code of Conduct – read more on page 28. We apply the precautionary principle in terms of use of materials and undertake systematic preventive work environment efforts. In 2017, we conducted a specific risk analysis for direct and indirect human rights breaches within our operations. The analysis identified the risk of indirect breaches of human rights in the supply chain, where the extraction of raw materials and production of materials takes place. Specialfastigheter's Head of Purchasing is responsible for managing risks in the supply chain. Read more about this on pages 45–49.

# Proactive skills sourcing

In order to achieve our vision and succeed in our business, we need the right skills – something for which there is often fierce competition. A vital condition of whether we succeed in retaining and attracting skills is how we manage skills development, diversity, equality and health – everything that builds our employer brand. We are a geographically diverse organisation, which means we need independent and committed employees who can provide every customer with the service they demand. This geography also places great demands on our communicative ability.

## The right skills for the future

The right skills today may not necessarily be the right skills in the future. Customers' requirements and wishes change constantly, so it is extremely important for Specialfastigheter to be a flexible organisation that is open to change. For this reason, we undertake proactive skills sourcing and have implemented succession planning and skills inventories for different roles.

It is extremely important to develop skills as part of our property management, but we also need specialist expertise in strategic areas such as security, project management, maintenance, fire, electricity, the environment and energy. In 2017, all employees within property management developed their skills linked to our new property system and through a customer service training course. To enhance efficiency both internally and in relation to our customers, we have consistently adapted our organisation where necessary. This flexibility has led to new skills requirements and means leadership needs to be developed. We arrange management days to enhance our managers' skills. The management completed a team development course and we also ran a special programme for newly recruited managers. Staff turnover fell in 2017 from 9.3% to 5.1%, which we consider to be a positive trend.

## Happy employees create an attractive workplace

Specialfastigheter works strategically with employer branding in order to become an even more attractive employer. By becoming better known, we increase our ability to recruit employees with the right skills. We always use our Employer Value Proposition (EVP) as a basis, which describes our offering to new and existing employees.

### Employee facts

We have 144 (131) employees distributed across six local offices (Linköping, Stockholm, Sundsvall, Örebro, Gothenburg and Lund). Our geographical distribution is, however, greater than just these areas. We are present in close to 70 municipalities as our service technicians work at our properties on a daily basis.

The number of female managers fell slightly during the year, amounting to 37% (38). On the Board, 45% (45) were women, while in management that figure was 63% (63). The total percentage of women at the company was 29 (30) at year end. Staff turnover amounted to 5.1% (9.3) and has thus fallen notably compared to previous years, which we consider to be a positive change in the trend.

One prerequisite of being an attractive employer is ensuring our employees are happy and spread a positive image of us. They become our company ambassadors and can convey our good reputation to potential employees. We have recruited several new talents that were needed at the company, for example a sustainability strategist and a manager for our project group. We will also employ an operational strategist in 2018, as well as a brand engineer and electrical engineer.

Number of employees with foreign backgrounds

**10%**  
(9% 2016)

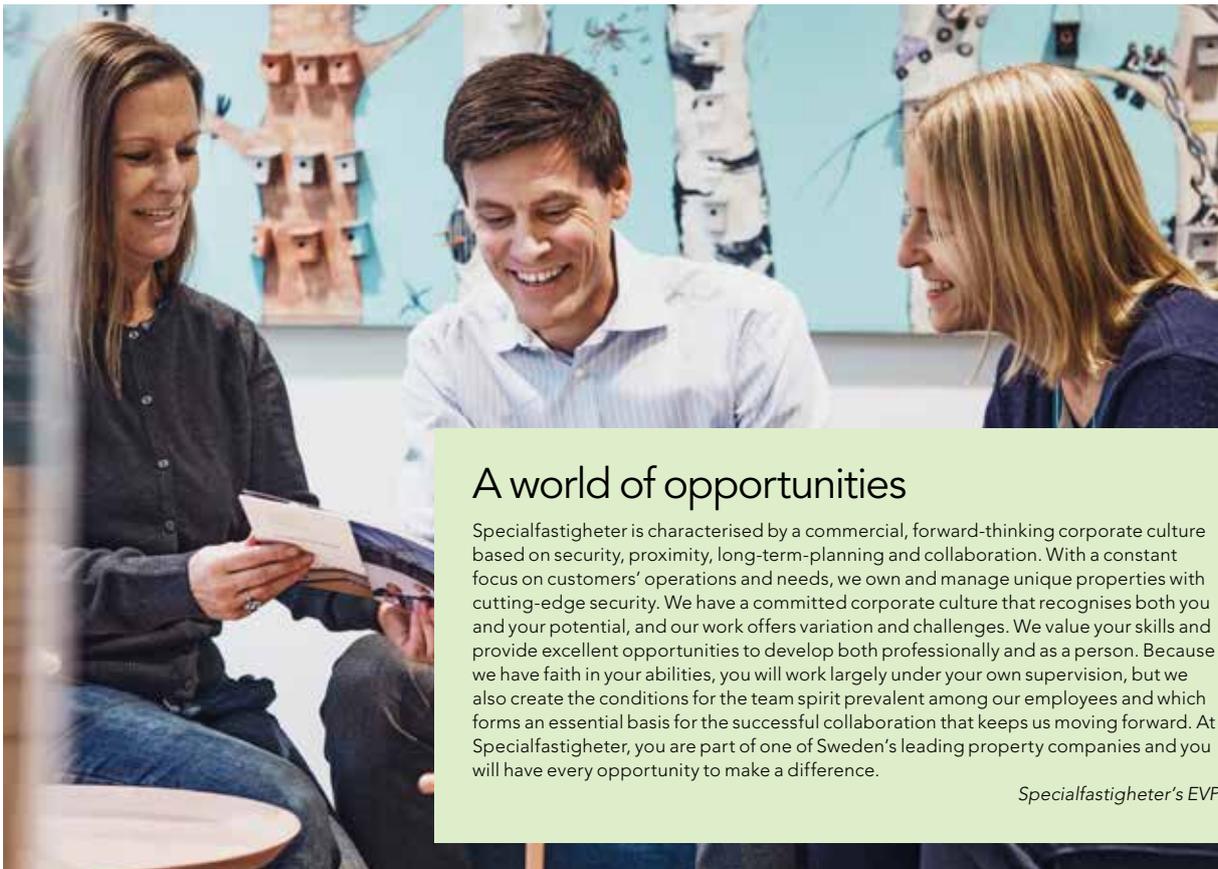
Our sustainability efforts are key to attracting new employees and, as a state-owned company, we should set an example, not least in terms of societal issues. During the year, we have taken part in four different jobs fairs at universities and colleges as well as taken on six (four) interns.

## Equal treatment is everyone's responsibility

Diversity and equal opportunities are central issues for us and our owner, and everyone in the company must share responsibility for them each and every day. We at Specialfastigheter work proactively on these issues for all forms of skills sourcing, regardless of whether it is a permanent position or an internship with us. We have chosen to change the name of our efforts linked to the various forms of discrimination to "equal treatment."

When recruiting, we always concentrate on making good use of the skills and experience found in every corner of society. By promoting equal treatment at the company, we can more easily find the skills we look for as the talent pool is considerably broadened. In 2017, we worked together with several property companies on a diversity project whereby we took on workplace induction students from the Rinkeby school. We also took on summer interns with a foreign background. It benefits us as a company to work proactively on these issues as it leads to greater competitiveness, profitability and attractiveness.

Since 2015, we have been measuring the percentage of employees with a foreign background. At the end of the year, they were 9.9% (9.2) of staff. Employees with a foreign background are those born abroad or those whose par-



## A world of opportunities

Specialfastigheter is characterised by a commercial, forward-thinking corporate culture based on security, proximity, long-term-planning and collaboration. With a constant focus on customers' operations and needs, we own and manage unique properties with cutting-edge security. We have a committed corporate culture that recognises both you and your potential, and our work offers variation and challenges. We value your skills and provide excellent opportunities to develop both professionally and as a person. Because we have faith in your abilities, you will work largely under your own supervision, but we also create the conditions for the team spirit prevalent among our employees and which forms an essential basis for the successful collaboration that keeps us moving forward. At Specialfastigheter, you are part of one of Sweden's leading property companies and you will have every opportunity to make a difference.

*Specialfastigheter's EVP*

ents were both born abroad. Our proactive, conscious efforts have advanced our work to promote equal opportunities and the proportion of women in the company at the end of the year was 29% (30). We also worked to increase the awareness and skills of all managers and employees on the issue of diversity during the year. The majority of employees and managers have participated in the "Växthuset" workshop to assess Specialfastigheter with regard to discrimination. We have conducted a salary survey and revised our equal treatment plan.

### **Social commitment through voluntary work**

Social sustainability is important in terms of our ability to remain an attractive employer. All employees have had the opportunity to undertake eight hours of voluntary work during working hours in 2017. Voluntary work aims to help people in socially vulnerable situations by way of support for individuals or organisations that work within that area. We want voluntary work to foster a sense of social commitment, personal development and well-being among our employees, but also to emphasise our values.

### **Health-promoting initiatives for healthy employees**

We carry out systematic initiatives relating to the work environment that permeate our day-to-day operations. The work environment is a significant sustainability area for us as the construction and property sector is affected from an accident and health perspective. We deem the greatest risks to be linked to our supply chain. Read more about this aspect on page 28. At the same time, a prerequisite for fulfilling our task and achieving our targets is that our employees are in good health. For us, promoting health at work

means that we take a holistic and sustainable approach, which includes wellness, leadership, employee camaraderie and skills development. We work preventively to promote good health, and sick leave at the company has remained low for a long time. Read more about this on pages 55–56. At the start of the year, an organisational analysis was carried out that showed both strengths and potential for development. The culture within the company is still perceived to be "social, welcoming and pleasant", but we can also see challenges in relation to how we communicate within the organisation, for example. We continued to work on these issues during the year. We offer our new employees comprehensive introductory training that includes both an introduction to their own workplace but also a central part together with other new employees at the organisation. We trained employees in dealing with threats and violence in working life, and managers and health and safety officers took part in a work environment training course. During the management days, we worked on sustainable leadership and employee camaraderie based on the organisational analysis, how we manage stress and how we can work with SOC (Sense of Coherence). We also developed our guidelines for systematic work environment initiatives and updated our company-wide checklist for work environment inspections during the year.

All employees are covered by healthcare insurance, and we offer a wellness contribution and discounted prices at various gyms. During the year, we also carried out a highly valued "health bingo" competition to increase employees' physical and social activities.



## Description of operations

A long-term approach for a safer Sweden – this is the goal of Specialfastigheter’s work together with our customers and suppliers. The basis of our operations is to ensure that we have the right premises for the right operations by continuously monitoring, developing and matching customer needs with our property portfolio. Every single Specialfastigheter customer should feel confident in our management services so that they can focus fully on their core operations. We conduct our own project and development activities to develop and customise our properties and thus ensure our access to specialist expertise, primarily in the field of security.

# The right premises for the right operations

Specialfastigheter's customers demand security. Many customers lease properties that could be described as being of a national security interest. Continuously reviewing the portfolio and ensuring that our premises are tailored to each customer's operations is essential for maintaining customer confidence and thus ensuring our success.

Specialfastigheter has over 20 years of experience in secure facilities. We have a clear ambition of being Sweden's leading property company in secure facilities, which is reflected in the extensive investments and initiatives we have implemented in four different security areas (see pages 24–25). For example, we are one of very few Swedish companies to be certified in the area of information security.

## Specialists in customer-specific solutions

Understanding and having an insight into customers' operations and security needs is the key to our success. Our long-term customer relationships facilitate unique dialogue and collaboration. Specialist expertise and extensive experience provide a solid foundation, but it is our ability to translate this know-how into tangible solutions specially adapted to each customer that truly makes a difference. Our starting point is always "the right prem-

ises for the right operations." The fact box on page 37 provides examples of our modifications for customers in our property holdings over the past year.

## Focus on properties with security requirements

The hallmarks of our property operations are high quality, long contract periods and creditworthy customers. Specialfastigheter commands a strong position in the market and our aim is to further increase our property holdings in close collaboration with existing and new customers. The focus of our development is to exclusively target properties with customers who have security requirements – secure facilities. Specialfastigheter has the following five development strategies for its property portfolio:

- Property upgrades – create sustainable, modern and secure buildings that provide a favourable environment for employees and for customers' operations.
- Phase-out – older, low standard buildings and buildings that are poorly suited for operations.
- Acquisitions with existing customers – expand our holdings with existing customers or with customers that have operations with security requirements and who currently lease premises from other property owners.
- Acquisitions with new customers – increase our holdings with new customers who need premises with built-in security.
- Refinement – disposal of properties that are not in line with our owner assignment.

### Properties and offices nationwide

Specialfastigheter manages property holdings encompassing around 100 secure facilities with a market value of about SEK 25 billion. Our properties are located across Sweden. The average remaining contract duration in the rental portfolio is 12.6 years (13.2). The company's largest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. The vacancy rate was very low at 1.0% (1.4) on 31 December 2017.



SiS LVM home (for substance abusers) in Hornö, Enköping

In certain cases, we may pursue the following to meet customer needs and to learn more about operations with a slightly lower security focus:

- Develop with customers – acquire properties for those parts of customers' operations that have lower security requirements.

### New investments

Modifications for customers entail complex property conversion and development projects in the form of new builds, extensions and redevelopments. Specialfastigheter's investments in projects totalled SEK 728 million (702) at year end. Read more about ongoing and planned investments on pages 40–41.

Work to build a new district court for the Swedish National Courts Administration in central Lund progressed during the year, and the building is estimated to be completed in mid-2018.

Specialfastigheter and the Swedish National Board of Institutional Care (SiS) signed new 25-year leases during the year for the correctional facilities of Folåsa, Hässleholm, Johannisberg and Ljungbacken to create new accommodation. This entails a project volume of around SEK 760 million.

### Acquisitions

Specialfastigheter actively monitors the market and evaluates relevant acquisition opportunities to meet higher demand for properties that meet security requirements. We have purchased a number of land parcels adjacent to our properties for potential future expansion. We also negotiated with Region Jönköping County during the year to acquire two properties in Värnamo, with leases being signed for occupation beginning in 2018. These properties include buildings at which SiS runs addiction treatment centres.

In 2017, occupancy began in the Färöarna 6 property in Kista that we acquired in 2016.

### Proposal for the Swedish Transport Administration to sell its traffic centres to Specialfastigheter

The Swedish Transport Administration is likely to become a new customer of ours in 2018 as we are planning to acquire

eight properties with traffic centres. The Transport Administration has made the assessment that Specialfastigheter is able to run the properties more efficiently and securely in terms of operation, maintenance and redevelopment.

### Disposals

The old correctional facility of Malmö central prison was sold during the year to Malmö's municipal housing company MKB, which intends to develop the property into several hundred new housing units. More housing is needed in Sweden, and the property can now become an attractive residential area.

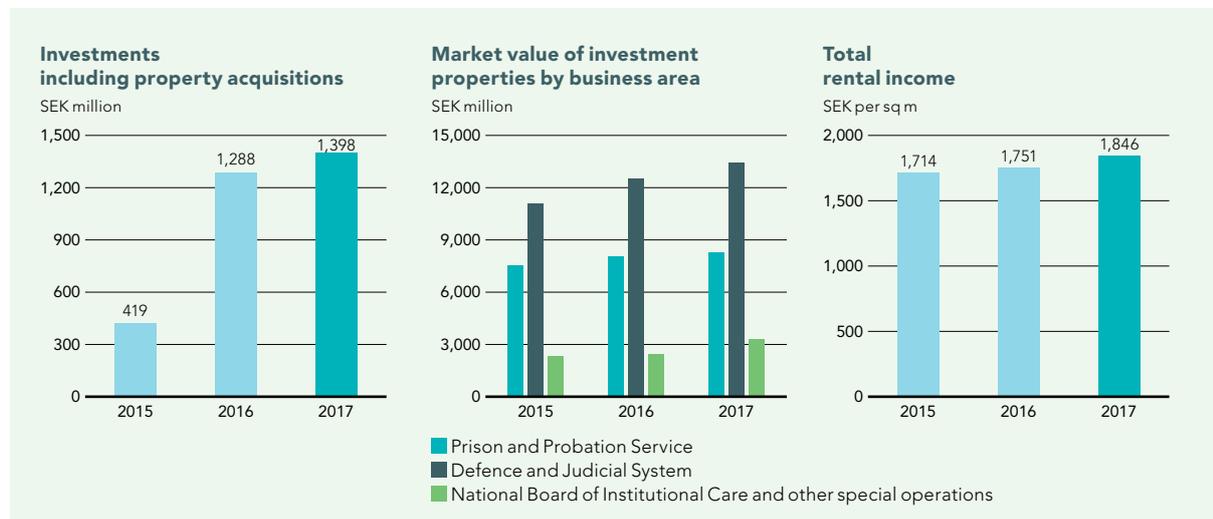
During the year, the previous Smälteryd correctional facility in Sätåla was sold to Mark Municipality.

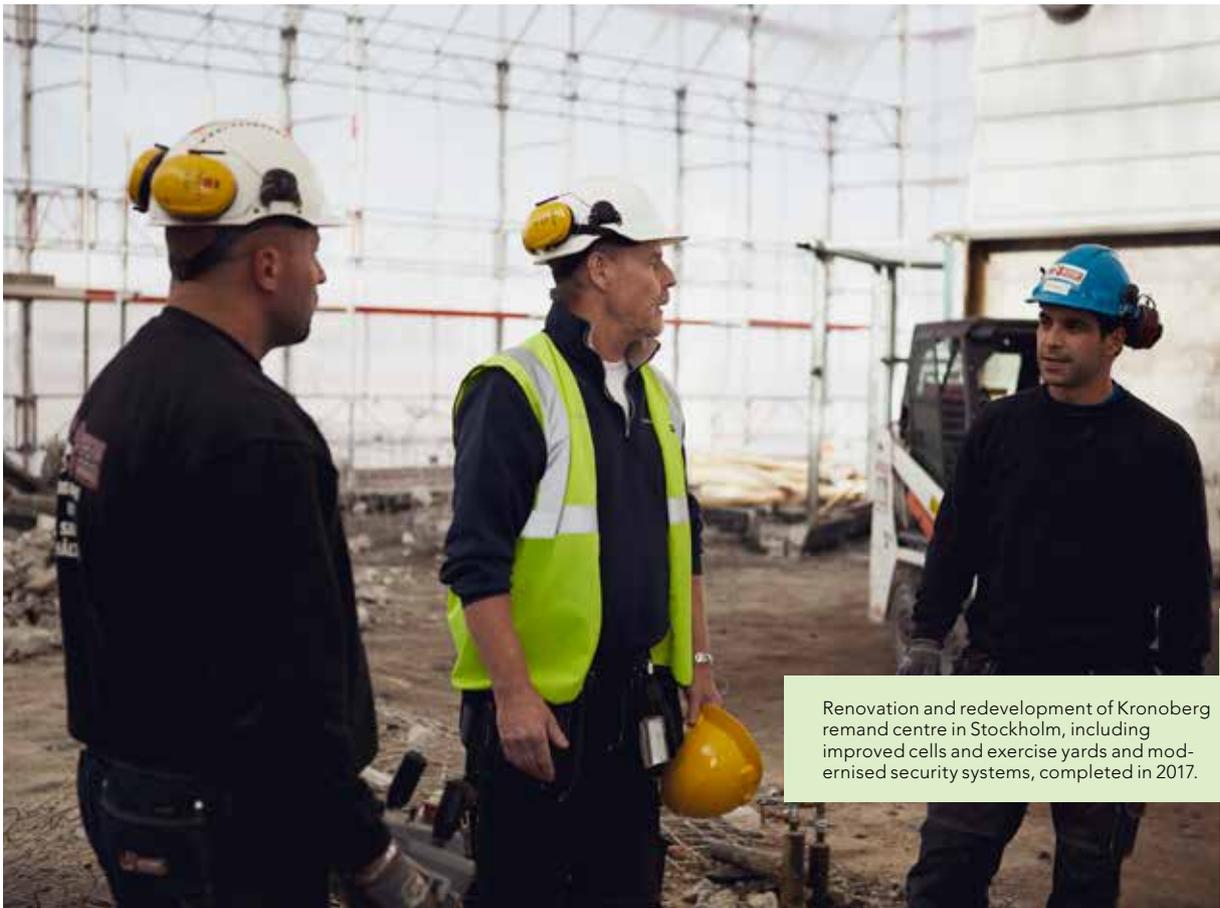
As the operations – a fire and rescue training college – at our property just outside Skövde were closed down and there was no need for any other security operations, we sold the property to Skövde Municipality.

The municipality can now develop the property for other purposes.

### Market value of properties

The market value of Specialfastigheter's investment properties has increased significantly in recent years and amounted to SEK 25,002 million (22,999) at year end. The estimated values were determined by means of an internal valuation based on actual lease income and operating expenses data. Information concerning cost of capital, required yield and current market rents is cross-checked with external appraisers. The unrealised changes in value recognised for the period amounted to SEK 832 million (865). To assure the quality of the internal evaluation, it was cross-checked against an external evaluation of 48 (49) objects, equivalent to 87% (82) of the total value at 31 December 2017. The difference between the external and internal evaluations amounts to less than 3% (3). Specialfastigheter applies a value below that obtained from the external valuations.





Renovation and redevelopment of Kronoberg remand centre in Stockholm, including improved cells and exercise yards and modernised security systems, completed in 2017.

## Examples of projects in 2017

### Property and customer

District Court in Lund

Kronoberg remand centre in Stockholm

Nine penal institutions for the Swedish Prison and Probation Service

The Swedish Prison and Probation Service

SiS juvenile care home and substance abuse treatment facilities

### Project/Customer modifications

Construction of new district court in central Lund, expected to be complete in spring 2018.

Renovation and redevelopment of Kronoberg remand centre in Stockholm, including improved cells and exercise yards and modernised security systems, completed in 2017.

Security-enhancing measures completed in 2017.

Redevelopment of main kitchen at Kristianstad prison, completed 2017. Redevelopment and renovation, remodelling and extension of building no. 7 at Hällby prison, completed 2017. Redevelopment and renovation, remodelling and extension of building no. 9 at Hällby prison, expected completion mid-2018. Redevelopment of Kalmar prison, completed 2017. New bridge between Hinseberg and Frövi, completed 2017.

In 2017, the Government permitted SiS to sign leases for the juvenile care homes of Johannisberg and Folåsa (residential sections), Ljungbacken (residential sections, sport, school) and Hässleholm (residential sections, school, sport, administrative premises, kitchen). Construction started at Folåsa and Ljungbacken in 2017, while the other two began in early 2018.

During the year, we completed projects at the juvenile care homes of Eknäs (redevelopment of administrative premises, car park and carport), Ljungaskog phase 1 (residential sections, sports facilities and kitchen), Stigby (loading bay and car park) and a car park and carport at Sundbo and Lövsta. We began new building at the Gudhem LVM home in 2017 (residential sections, admin, store rooms) and the Fagared juvenile care home (minor extension of premises for "private care").

# Secure and sustainable property management

All of our customers share a need for security, and our aim is to help them focus on their core business. Our customers feel safe and secure in their operations because of the management services we provide using our own personnel, our focus on a high level of operational reliability and our efficient technical solutions.

## Flexible to change

The changeable nature of customers' operations imposes major demands on our flexibility and receptiveness. One example of this is that we need to alter our maintenance activities according to when tenants can grant us access to various areas. Sustained high utilisation rates in Swedish correctional facilities, including those run by the Swedish National Board of Institutional Care, meant that we were unable to carry out maintenance involving the closure of accommodation to any great extent.

## Own operational personnel in all locations

We adopt a customer and security perspective and aim to use our own personnel in our management services as far as possible. In addition to specialist know-how in the field of security, Specialfastigheter's service technicians and managers must also have a high level of technical expertise to efficiently manage complex and highly digitised properties. Our operational employees also represent Specialfastigheter's daily contact with customers. We trained all managers during the year to further enhance expertise in customer-specific areas, primarily customer service and electrical safety.

Our geographical range is a challenge to management services, as is the small-scale of many of our properties. Skills sourcing is extremely important for maintaining a high-level of service close to properties in all locations. Read more about Specialfastigheter's work on skills sourcing on pages 32–33.

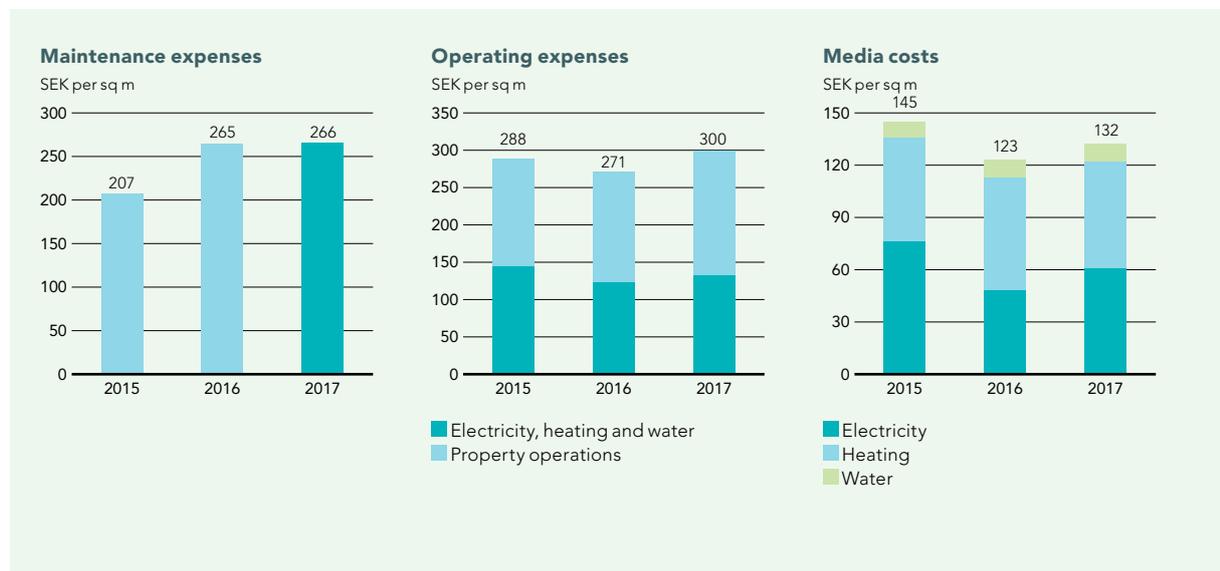
## Improved dialogue with customers

The daily dialogue linked to our ongoing management provides valuable planning information. Many of our customers, such as the Swedish Prison and Probation Service, and the Swedish National Board of Institutional Care conduct operations at a large number of locations across Sweden. As a result, dialogues and collaboration take place at various levels in order to encompass the entire operations. Local tenant meetings as well as regional and central meetings at which the overall development of the organisations are discussed are examples of important dialogues.

The customer survey carried out during the winter of 2016/2017 showed that the CSI had fallen from 70 (at the latest survey in 2013) to 65. Analysis of the responses indicates that it is primarily the dialogue surrounding service and maintenance as well as feedback on implemented measures that the customers feel could be improved. We therefore implemented a customer service training course during the year that focused on dialogue for all property management employees. We also had joint management conferences with both the Prison and Probation Service, and the Swedish National Board of Institutional Care in order to improve planning of future maintenance.

## Long-term planning

We prepare annual management plans for each property, based on our contact and partnerships with each customer, to ensure efficient and long-term property management. The



plans highlight what is required for us to deliver in line with our commitments. Each part of the plan has a long-term strategy, targets and an action plan. The plans are followed up and revised during the year to adjust the planning to current customer needs. During the year, we also performed risk analyses and prepared action plans at property level for the majority of our properties. Our work relating to the action plans will continue in 2018.

### High operational reliability around the clock

Many of our properties fulfil important public functions. High operational reliability, in many cases around the clock, is a precondition for customers' operations to run safely and securely. It is essential to have robust operating systems, excellent planning and meticulous employees with in-depth understanding of customers' needs, their properties and their technical equipment. The geographic range of the properties entails requirements for continuously developing technological aids, management systems and governance and surveillance systems. Digitisation means that efficiency can be enhanced but is an area in which the risk of hacking must always be taken into consideration. Information security is one of Specialfastigheter's prioritised security areas (read more on pages 24–25).

### New and more efficient property systems

We worked intensively during the year on the continued implementation of our new property system that was procured to ensure efficient and secure support for planning, implementing and monitoring operations. This system includes new support for media monitoring, case management and scheduled maintenance. The final modules – maintenance planning and case management – became operational in May. Following this, focus has been placed on producing the new maintenance plans for the coming two years.

### Sustainable property management

Sustainable property management covers a wide variety of aspects, from energy and materials use to handling hazardous substances and biodiversity. Properties affect the environment throughout their life cycle. Specialfastigheter uses the SundaHus environmental database to check and monitor that the materials and substances used in property management are as favourable as possible from a health and environmental perspective. Read more on page 31.

Energy use has a significant impact on both operating expenses and the environment. Our service technicians and property management engineers analyse operation optimisation and the various energy investments in consultation with each property manager. Energy enhancements and monitoring the types of energy are a priority area in which Specialfastigheter works internally and alongside its customers. During the year, the gas installations at our properties in Tygelsjö and Revinge were converted to biogas and we have shifted to green district heating at the correctional facilities of Fosie and Kumla. We also installed solar panels at Tygelsjö. Carbon dioxide emissions fell 15.6% year-on-year. Read more on page 30.

Work on the green action plans continued in 2017. 98% of the leases with green appendices now have an action plan that we produced together with customers locally. This action plan specifies how we are to work together to reduce the burden on the environment and is a permanent agenda item of local tenant meetings. A follow-up and update of the action plan is carried out at least once a year.

### Operating and maintenance expenses

Most operating expenses comprise electricity, heating and water. This means that working together with our customers to enhance efficiency and optimise operations is a key element of retaining a low cost base. Our maintenance expenses differ from many other property companies in that they often include internal maintenance and other security-enhancing measures. Operating expenses for 2017 amounted to SEK 300 per square metre (271) and maintenance expenses to SEK 266 per square metre (265). This increase in operating expenses is mainly due to compensation linked to a redevelopment project at Kronoberg and an unbudgeted ground rent at our new property in Kista.

### Radon assessment conducted

Our entire property holdings have now been assessed. We have taken remedial action wherever we have found elevated values, and follow-up measurements continued during 2017. All remedial action is expected to be completed no later than 2018.

#### Electricity consumption

kWh per sq m Atemp



Electricity use in our properties declined 3.1% year-on-year. We continued to work to replace spent lighting with LED lights during the year, and our optimisation of operations has yielded results.

#### Heating consumption

kWh per sq m Atemp



Heating consumption in our properties fell 1.3% year-on-year. We converted our heating system to heat pumps at a couple of properties during the year, while optimising the operating lifespans of our technical installations.

#### Water consumption

L per sq m Atemp



Water consumption fell 5.5% during the year. This is largely due to the fact that water consumption has fallen at our largest customers, the Prison and Probation Service and SIS.

# We are specialists in building secure facilities

Many of our customers need to expand their operations or redevelop them. We have a proprietary project and development unit that manages complex projects at our properties in the form of new builds, extensions, redevelopments and technology upgrades. Our project volume increased considerably in 2017.

Specialfastigheter has chosen to establish an in-house project and development unit to meet its need for proprietary expertise in the field of secure facilities. Our project managers provide valuable expertise across the entire chain from concept to completion, and we also have specialists in construction, water and sewerage, electricity, the environment, energy, property automation and CAD/BIM. The unit is to meet our customers' needs for appropriate and secure premises in a business-minded way and contribute to long-term development of sustainable properties. We began recruiting in 2017 to reinforce our skills in the area of fire safety. As our project volume has increased significantly and we can see that major volumes are expected, we have worked intensively on our strategies for supplying the projects with resources. We communicate our needs continuously to the sector and have employed a number of employees in our project operations.

## Environmental database for sustainable use of materials

Specialfastigheter operates in a material-intensive sector and a systematic method for how we select and use materials is an important part of our sustainability efforts. We record all the materials used in new construction, extensions and redevelopments in an environmental database. Among other things, this helps us to see if a material contains substances hazardous to health or the environment. The database also enables us to retrieve information about where a material is located in our buildings should this come into question in the future. Regarding materials, our standards are higher than those under the Sweden Green Building Council's (Miljöbyggnad) criteria and we also document electrical, ventilation, pipe-work, plumbing and control systems at component level. We guide our suppliers through material selection requirements and material documentation. We also make sure waste management follows the requirements we have been set. Read more about our use of materials on page 31.

## Certification-ready buildings

We attempt to obtain environmental certification of our buildings as far as possible, based on energy, indoor environment and materials. The high security standards to which our buildings are subject make it difficult for us to complete the final certification stage since this requires an external review, and for security reasons we cannot grant access to all information about our properties. For this reason, we have chosen to work on the basis that our properties are ready for certification and we then decide on certification on a case-by-case basis. We work with the Sweden Green Building Council's certification system for new builds and redevelopments as though the property is to be certified, but we do not complete the final stage of having an independent party conduct a review. In 2017, our new district court building in Lund obtained preliminary Gold-level SGBC classification.

## Projects in 2017

There were 95 (86) investment projects in progress at year end. The total investment volume for projects in progress is estimated at SEK 2,095 million (1,364), of which SEK 1,169 million was accrued as of 31 December 2017. Of the 95 projects in progress, 15 had estimated investments in excess of SEK 20 million, corresponding to around 87% of the total investment volume.

## Prison and Probation Service business area

- A major remand centre renovation and operational adaptation project was begun at the Kronoberg property in Stockholm in 2011. The project was completed in 2017.
- Redevelopment and renovation, remodelling and extension at several buildings of the Hällby Prison continued in 2017. Work will continue to be conducted in phases through to 2019.
- Security-enhancing measures were implemented and completed at nine prisons across Sweden during the year.
- Several investigation projects are being conducted in the business area, many of which are included in the Swedish Prison and Probation Service's infrastructure plan.

## Defence and Judicial System business area

- The new production of the district court in Lund for the Swedish National Courts Administration is proceeding according to plan. The project encompasses about 10,560 sq m and the building is scheduled for completion in the second quarter of 2018.
- The Swedish Police launched a review of its local needs in the Kronoberg complex during the year, and so we produced proposals for extensions and densifications.

## Institutional Care and Other Special Operations business area

- The business area is carrying out several investigations in this business area into redevelopment, extension and new builds to create long-term, sustainable buildings for our tenant, the Swedish National Board of Institutional Care's operations.
- Major redevelopment and extension projects were completed at the Bärby property in 2017.
- Redevelopment, extension and new build projects continued at the Ljungaskog and Tysslinge properties. These will be completed in 2018.
- Construction of standard buildings with two departments at the Folåsa, Johannisberg and Ljungbacken properties.
- Construction of standard buildings with one department at the Ljungaskog, Björkbacken and Klarälvsgården properties.
- Major redevelopment and extensions at the property in Hässleholm.

## Investment projects in progress on 31 December 2017

Investment volume, SEK million	Estimated
Investment projects > SEK 20 million	1,832
Investment projects < SEK 20 million	263
<b>Total investment volume, projects in progress, SEK million</b>	<b>2,095</b>
<b>Additional floor space, sq m</b>	
Investment projects > SEK 20 million	26,747
Investment projects < SEK 20 million	353
<b>Total additional floor space, sq m, projects in progress</b>	<b>27,100</b>

## Investment projects by business area



■ Prison and Probation Service business area, SEK 467 million
■ Defence and Judicial System business area, SEK 527 million
■ Institutional Care and Other Special Operations business area, SEK 1,101 million

Total SEK 2,095 million

## Major investment projects in progress per 31 December 2017

Property name	Customer	Project description	Additional floor space, sq m
Kristallen 1	Swedish National Courts Administration	Construction of new district court in Lund	10,560
Fridhem 9	SiS	Extension of accommodation and school at Hässleholm juvenile care home	6,500
Kronoberg 18	The Swedish Prison and Probation Service	Renovation and operational adaptation of the Kronoberg remand centre	563
Gräskärr 1:1	SiS	Extension of accommodation and school at Ljungbacken juvenile care home	1,789
Grytnäs 2:1	SiS	Extension of accommodation and school at Johannisberg juvenile care home	1,800
Funbo-Broby 1:3	SiS	Redevelopment and new construction of accommodation, administration and communal areas at Bärby juvenile care home	1,885
Fälåsa 12:1	SiS	Extension of accommodation at Fålåsa juvenile care home	1,789
Gudhem 12:3	SiS	Redevelopment and extension of accommodation and communal areas at Gudhemgården LVM home	292
Ljungaskog 15:28	SiS	Redevelopment and extension of accommodation, educational premises and new construction at Ljungaskog juvenile care home	260
Tumbo-Berga 1:3, 1:5	The Swedish Prison and Probation Service	Redevelopment and extension of building no. 9 at Hällby correctional facility	290
Kronoberg 18	Swedish Policy Authority	Redevelopment of offices	0
Hall 4:4	SiS	Modification of premises (from prison to institution) of Tysslinge juvenile care home	0
Ravelinen 1	The Swedish Prison and Probation Service	Redevelopment and fire measures implemented at Kalmar correctional facility	0
Brätte 1:2	SiS	Redevelopment of accommodation and communal areas at Brättegården juvenile care home	0
Bojan 2	The Swedish Prison and Probation Service	Security-enhancing measures at Haparanda correctional facility	0



Kronoberg 18, remand centre



Kristallen 1, new district court in Lund



Kronoberg 18, Police Authority's offices



Bojan 2, Haparanda correctional facility



Funbo-Broby 1:3, Bärby juvenile care home



Hall 4:4, Tysslinge juvenile care home



Ravelinen 1, Kalmar correctional facility



Brätte 1:2, Brättegården juvenile care home

## Future project volumes

Many of our customers have reviewed their organisations and enhanced the efficiency of operations in recent years. Several have indicated that their needs for premises have changed and expanded. Higher security

requirements from both existing and new customers also mean that our project volumes have increased significantly during the year and will continue to do so over the next five years.

# Secure properties – secure finances

Specialfastigheter is one of the companies in the property sector that enjoys an extremely low credit risk and a stable financial position. We monitor economic trends carefully to safeguard our position moving forward.

## The past year

We issue our first green bonds in November 2017 – one with a five-year term and a nominal volume of SEK 500 million and one with a seven-year term and a nominal volume of SEK 750 million, in total SEK 1,250 million. Interest in these bonds was so intense that they were oversubscribed. Our assessment is that we will continue to issue green bonds over the coming years to a value of SEK 1 billion per year. Funds raised by the issue is placed in a green account and deducted as projects that fulfil the conditions of our green framework are developed.

Borrowing increased in 2017 due to acquisitions and increased project volumes. Corporate bond issues rose from just under SEK 9.2 billion to SEK 10.9 billion in 2017. The issue volume on the commercial paper market fell from slightly more than SEK 3 billion to just over SEK 2.9 billion.

During the year, we invested SEK 1 billion in Swedish covered mortgage bonds and used these as collateral for bank loans on the repo market. This has provided us with opportunities for faster funding for shorter terms and at negative interest rates since the repo rate is at negative 0.50%.

Maturities have become longer since we increased funding in the long-term capital market. The fixed-interest term was extended to capitalise on the low market interest rate during the year.

Net financial items amounted to an expense of SEK 73 million (expense: 79). The positive change was largely due to the low market interest rate, but also the positive effect of the translation of foreign currency loans of SEK 45 million (66).

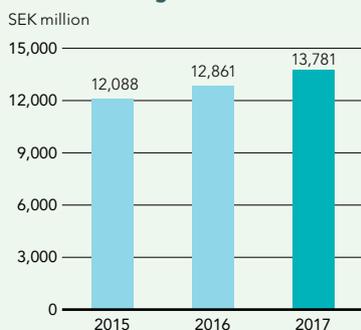
Changes in derivative values were a negative SEK 63 million (neg: 38). This is mainly due to an increasingly strong Swedish krona against the US dollar that leads to lower unrealised market values.

## Outlook for 2018

At its December meeting, the Riksbank's Executive Board decided to keep the repo rate unchanged at negative 0.50% and to reinvest redemptions and coupon payments in the government bond portfolio until further notice. The Riksbank anticipates raising the interest rate slowly for the first time in mid-2018.

The decision of the Riksbank will lead to sustained low interest rates over the next few years, from which Specialfastigheter can benefit by keeping a high proportion of our fixed-interest within one year. The central bank's expansionary monetary policy involving sustained purchases of securities throughout 2018 will lead to a high level of market liquidity, which Specialfastigheter can leverage by raising funds in short-term markets via commercial papers and whole loan repos. Credit spreads should continue to be low due to the expansionary monetary policy, and we can

### Interest-bearing liabilities



Interest-bearing liabilities increased in 2017 as a result of acquisitions and increased investments.

### Loan-to-value ratio



The loan-to-value ratio fell in 2017 since the property value rose more than the increase in liability.

### Total net financial items trend



Total net financial items were higher in 2017 than 2016, due to major unrealised losses on financial derivatives.

benefit from this by issuing bonds with a medium-term maturity. Over the next few years, the company plans to issue bonds for between two and three billion kronor in the bond market, which is roughly the same level as over the past few years.

### Specialfastigheter's financial operations

Trends in the financial market impact the company's cost trend. Financial management must reflect and support the operations' business objectives. Specialfastigheter's financial risks are to be limited while active financial management is to ensure low net financial items linked to the operations' targets and conditions. This is achieved by identifying risks and managing them within set frameworks.

The aims of the financing activities are to:

- Maintain the company's strong financial position and credit rating of at least AA
- Limit the risks of negative effects on cash flow, earnings and the balance sheet
- Ensure access to necessary financing at reasonable costs
- Control financial risks according to the financial policy
- Ensure risk management through control and reporting

### Commercial paper programme

The company has had a commercial paper programme in the Swedish market since 1999 with a limit of SEK 5 billion. A total of SEK 2.9 billion of the programme had been utilised at 31 December 2017.

### Bond programme

The company issues bonds denominated in SEK or EUR in the Swedish capital market under an MTN programme with a maturity of one year or longer. The programme has a total limit of SEK 13 billion or equivalent value in EUR. A total SEK 10.3 billion (9.2) had been utilised at year end. In addition to the Swedish market, Specialfastigheter has two outstanding bonds amounting to USD 50 million in the European market. Fixed-income and currency derivatives were also entered into, meaning currency risk has been neutralised.

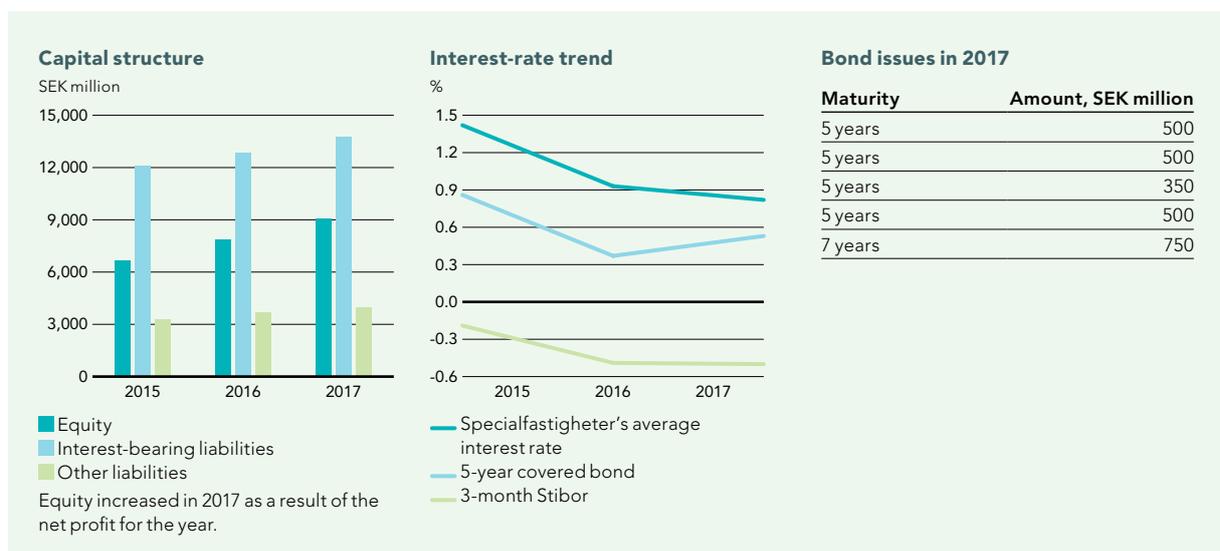
We reduce financing risk by spreading maturities over different years and via loan commitments that cover the maturity of commercial paper and bonds for the years immediately ahead. The volume of loan commitments totalled SEK 4,750 million.

### Ownership clause

Specialfastigheter's market programme and loan commitments include an ownership clause, which strengthens lenders' positions. The clause means that lenders are entitled to call a loan in early if state ownership falls below 100%.

### Mortgage deeds

No mortgage deeds are pledged as collateral for any debt instruments.



## Governance of our operations

Assuming responsibility for the entire value chain and effectively governing the operations are essential for creating value. We govern our operations based on a long-term and collaborative approach to increase business value for our customers, owners and other stakeholders. Key sustainability issues and risk management are integrated into all of our work. The international risk management standard ISO 31000:2009 guides our work in this area. We comply with the Swedish Corporate Governance Code and as a state-owned company we always endeavour to set a good example. Our sustainability efforts are reported in accordance with the Global Reporting Initiative (GRI) guidelines.

# Balanced risk-taking

All business operations entail risks. However, when handled properly, balanced risk-taking promotes long-term value creation that considers both opportunities and risks. Identifying, analysing, managing and following up on risks are therefore priority issues.

## Process for managing risks



In addition to the business opportunities that may be present in a risk, there are also threats that, if not managed correctly, can jeopardise our credibility and competitiveness and result in negative consequences for our stakeholders and operating environment.

Our risk-related work is an integral part of all our operations and is based on a structured process that begins with our annual business planning, during which the operations' company-wide risks are identified, based on the possible consequences for Specialfastigheter and for our operating environment. Risk management at Specialfastigheter follows the ISO 31000:2009 standard for risk management.

An assessment of probability and consequence is conducted for each identified risk to determine its risk level, after which point we produce an action plan containing proposals of measures, timetables and distribution of responsibility. Finally we analyse our capability of managing the identified risk. We split our risks into five risk categories: business-related; legal; environmental; operational; and financial. The only risk with an extremely high risk level is climate change. In respect of financial risk, the risk level is mostly medium. We have a good or very good risk management system, which was improved in 2017 in terms of areas such as Loss in terms of price of purchased covered bonds and Reporting risk. Our extensive work with the use of materials has led to improved efficiency in terms of the "Use of substances hazardous to health and the environment" risk category. In terms of the "Skills shortage, now and in the future" risk category, we have lowered our risk level as a result of our work with proactive skills sourcing.

The Board follows up identified risks once each year. Company-wide risks are also followed up at least twice per year

## Risk matrix



The figures indicate specific risks that are described on pages 46–48. The colour of the square indicates the risk level and the colour in the circle indicates our estimated efficiency level.

during management reviews, while specific risk analyses are conducted for larger projects.

Our ambition is to consistently improve our risk management system. We are actively engaged in this area and are able to note an increase in efficiency compared to previous years. In 2017, we developed our risk management process and, in 2018, we will advance this one step further by continuing to clarify and establish methods and systems for risk analysis.

### Business-related risks

Business-related risks are attributable to events in our operating environment, among our customers and at our organisation, impacting both our business and developments in the property market. We analyse risks in the following areas: market, projects, organisation, credibility and value.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
① <b>Loss of market position</b>	Competition is intensifying in the market for public sector properties. Our customers are mostly state-owned operations with high security standards, so we must be best at providing them with secure, efficient and effective premises and good service. Work is continuously under way in collaboration with many of our customers to find good solutions that provide the best overall efficiency. We increased our project volume in 2017 through the development of our own properties, and proceeded to refine the portfolio by divesting properties that were not suitable for customers with security requirements. We also continued to reinforce our unique skills in the area of security.	Medium	Good
② <b>Questionable credibility</b>	Our values and Code of Conduct guide us during our day-to-day operations. We have a structured purchasing system and we comply with the Swedish Public Procurement Act. Whistle-blower and incident reporting systems aim to detect irregularities and comprise a basis for developing our operations. Guidelines for addressing the threat posed by insiders and infiltrators have been prepared, since this know-how is critical for a credible and effective security measures.	Medium	Very good
③ <b>Shortage of suitable premises</b>	We work closely with our customers to meet both their current and their future needs. We constantly monitor events in the market as well as legislation and regulations. The property management plans detail how our premises can be maintained and modernised. We have reviewed our maintenance process and will continue to prioritise maintenance work in 2018.	Medium	Good
④ <b>Project delivery failure</b>	We work in a structured manner and assess projects for risks. Project reviews guarantee good control and follow-up and ensure projects are on budget, on time and meet the scope of supply and quality requirements. Production cost risks are limited to the greatest possible extent through contracts with both the contractor and tenant. Close dialogues are initiated at an early stage between the project unit and the purchasing unit prior to the procurement of consultants and contractors. Our project unit was strengthened through the addition of more assistant project managers in 2017 and a project group manager at the start of 2018. A new project management tool will be implemented in 2018.	High	Good
⑤ <b>Shortage of appropriate skills today and in the future</b>	In order to avoid losing vital skills and experience, we plan for replacement recruiting. We carried out a number of skills assessments during 2017 with the aim of planning the right skills development areas for our employees, and we also undertook succession planning for key employees. Moreover, we are continuing efforts to strengthen our brand as an employer. We are developing as purchasers and currently procure professional non-critical expertise for our core operations from external consultants and contractors.	Medium	Good
⑥ <b>Risk of corruption</b>	We have a Code of Conduct for suppliers as well as an internal Code of Conduct. Training for purchasers is conducted on an ongoing basis with the objective of providing know-how and understanding of ethics to prevent the occurrence of corruption. We have improved our review and monitoring processes for suppliers and contracts and we also have a whistle-blower function (refer also to risk 13). We have zero tolerance for corruption, which is also one of our overriding strategic goals.	High	Good
⑦ <b>Falling market value of properties</b>	A high rating and a very strong balance sheet that can cope with a market downturn. We draw up long-term development and management plans for each property and follow them up on an ongoing basis to retain our customers and maintain the value of our properties. The planning of maintenance measures and investments takes place in close consultation with customers. There is a risk that maintenance works will be delayed if customers do not give us access to their premises for maintenance measures, resulting in a deterioration in the quality of the properties. We conducted property risk analyses in 2017 as a basis for continuity plans.	Medium	Good

### Legal risks

Legal risks include those that concern our property owner responsibility such as the Work Environment Act, the Swedish Environmental Code and the Planning and Building Act.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
⑧ <b>Deficiencies in property owner responsibilities</b>	We are constantly reviewing our requirement for skills and skills enhancement and offer training to ensure our employees understand what property owner responsibility entails. We keep informed about changes in legislation to ensure compliance with relevant legislative requirements.	High	Acceptable

**Environmental risks**

Environmental risks include all risks in our operations that may affect the environment, such as discharges into soil, the atmosphere and water or our use of the wrong materials in our construction.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
9 Use of substances hazardous to health and the environment	To ensure we do not incorporate hazardous material into our buildings or use such materials in our operations through ignorance, we have clear guidelines and an environmental strategist in charge of monitoring whether we have the appropriate know-how in-house and that we assess every construction project regarding substances hazardous to health and the environment in component parts of the construction products selected. All material included in a building is documented in a database for future reference. In this regard, we have chosen to go beyond the SGBC's requirements in terms of which material requires registration since we want to work proactively with this issue from a precautionary perspective. We have also chosen to set targets for material use.	Medium	Very good
10 Climate change	Climate change entails an increase in outdoor temperatures, rising sea levels and more extreme weather events in the form of heavy precipitation and powerful winds. We will reduce our climate impact by establishing ambitious targets for reducing carbon dioxide emissions, chiefly through more efficient energy use. Properties that are in danger zones in terms of potential consequences of climate change are protected by means of preventive measures. Examples of such measures are redundancy in terms of the supply of electricity, heating and cooling as well as weather and damp protection in buildings.	Very high	Good

**Operative risks**

Operative risks include all risks in our day-to-day operations that affect how we handle daily operational assignments. We focus on the following risk areas: work environment, information security and organisational.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
11 Physical and/or psychosocial injury to employees	We maintain a constant focus on security for our customers and employees. During 2017, we trained service technicians, project managers and property managers in how to deal with threats and violence in the workplace, and systematic fire prevention to ensure they are able to cope in different situations. We also conducted fire training at our local offices (a few employees received training in early 2018). Today, there is a high level of awareness regarding this risk. In many cases, customers are contractually obliged to provide alarms and guidance. In 2017, an app for working alone was evaluated and used in a number of places. Further evaluation is ongoing of other supports for working alone. We also provide employees with security guard support if necessary.	High	Good
12 Loss of confidential information	Our management system for information security is certified in line with ISO/IEC 27001:2013 and aims to guarantee the best possible conditions to protect both our information assets and those of our customers. The certification, which was renewed in May 2015, will be subject for renewal in 2018. We have an interactive information security training course that is mandatory for all staff. We monitor the rapid developments linked to threats to the IT environment by analysing and assessing threats and vulnerabilities and using such analyses to come up with appropriate protective measures.	High	Very good
13 Failure to attract suitable suppliers	We constantly strive to set clear standards and develop a sustainable, efficient supplier chain. Our purchasing process is well-established and monitors contract compliance and loyalty. During 2017, we carried out a number of audits that addressed environmental standards and we distributed a self-assessment questionnaire that focused on the ethical and social requirements to every supplier that has accepted our Code of Conduct. In 2017, we continued with the self-assessments and processed their findings. We also completed four on-site audits wherever the results of the self-assessment required it.	Medium	Good

## Financial risks

Specialfastigheter is exposed to different kinds of financial risk in its operations, including through fluctuations in profits and cash flow as a result of market valuations, financing, interest rates, credit and counterparty risks, currencies, exchange-rate losses, electrical prices and risks associated with reporting, taxes and fees. Our financial policy for managing financial risks has been approved by the Board and forms a framework of guidelines and rules in the form of risk mandates and limits for financial operations. The overall objective of our financial department is to provide cost-effective funding and to minimise the adverse effects of market fluctuations on company earnings.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
14 Lack of financing	Financing risk is one of the more significant risks we have to manage. Our goal is to ensure access to the loan capital necessary for running our operations while also considering the total cost of financing and the loan commitments necessary for the fulfilment of our financial policy. In order to limit financing risk, we must strive to raise credit with long maturities and an even maturity profile for existing loans. The majority of our financing takes place in the Swedish capital market, but issues are also made in international capital markets wherever appropriate from an overall cost and diversification perspective. To further reduce financing risk, there were unutilised backup facilities and overdrafts totalling SEK 4,750 million (4,736) as of 31 December 2017. This amount almost covers the maturity of commercial paper and bonds outstanding for a period of one and half years. As of 31 December 2017, maturity was 3.4 years (3.6), and taking unutilised guaranteed loan commitments into consideration, maturity was 4.3 (4.0) years.	Low	Very good
15 Loss in terms of price of purchased covered bonds	Changes in market interest rates, the credit spread and time factors affect the purchase price of covered bonds. In order to counter this risk, we have taken up interest-rate swaps for equivalent amounts. These have an equivalent impact on earnings in the opposite direction, which eliminates price gains/losses. If the price change is due to a changed credit spread on covered bonds, it will have no impact on the interest-rate swap. In this case, the impact on earnings is only on the covered bond. The covered bonds we buy have the highest credit ratings and are negotiable.	Medium	Very good
16 Credit and counterparty risk	To reduce credit risk, investments are only permitted in securities with high credit ratings. On 31 December 2017, investments were made in eight secured Swedish covered bonds with a total nominal amount of SEK 1,000 million.  Counterparty risk for derivatives is reduced through our agreement to net assets against liabilities with counterparties with whom we make derivative transactions. To reduce counterparty risk further, Specialfastigheter may enter into agreements that govern the management of collateral pledged at net market value.  The company's counterparty risk in derivative contracts totalled SEK 57 million (90) as of 31 December 2017; this corresponds to the company's total receivables from unrealised derivatives with positive values. As of 31 December 2017, we have received SEK 0 million (0) as deposits from our counterparties that can be used if a counterparty cannot meet its obligations.	Low	Very good
17 Change in value of financial derivatives	Changes in value may occur in connection with interest-rate derivatives depending on changes in the market interest rate and the time factor. In determining fair value, we use market quotations on the closing date and generally accepted calculation methods. The change in value is reported in profit or loss. Currency translation to Swedish kronor is at the rates of exchange quoted on the closing date. Interest-rate swaps are measured by discounting future cash flows to present value. On the closing date, the change in value of interest-rate derivatives amounted to a negative SEK 63 million (negative: 38). However, losses or gains remain unrealised as long as the derivatives are not terminated prematurely.	Medium	Very good
18 Currency risks	According to our financial policy, exposures must be hedged if they exceed a value equivalent to SEK 5 million. Exposures below SEK 5 million may be hedged following an assessment of the risk situation and hedging costs. Hedging takes place through financial derivatives that are measured and reported at fair value. The effects of changes in value are recognised in profit or loss under Change in value of financial instruments, unrealised. Liabilities in foreign currencies are translated at year end at the balance-sheet date's exchange rate and the effect of these changes is reported in net financial items.	Medium	Very good
19 Interest-rate risk	In addition to a lack of financing, interest-rate risk is the most important of the financial risks. Our interest rate management objective is to achieve low interest expenses over time while adapting the interest rate profile to the underlying business conditions. To manage interest expense and interest-rate risks, we continually assess the existing debt portfolio including derivatives in relation to the current market yield curve. We seek an interest-rate profile that is suitable in terms of total expenses, commercial conditions and applicable business plans. The practice of taking and exiting positions with the aim of making money – referred to as trading – is not permitted. Specialfastigheter's interest-rate profile is regulated in the financial policy by limiting the number of interest maturities within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest term should be within the 1–5 year range. As of 31 December 2017, the average fixed-interest term was 3.2 years (2.6).	Medium	Very good
20 Reporting risk	It is extremely important for us to present a correct picture of our operations and financial position. Specialfastigheter has well-functioning internal controls. Our management system illustrates our working method in clear processes and links our policy documents to each process. We carry out annual internal audits of various processes to ensure good internal control. We constantly monitor various international rules and regulations and, to ensure accurate financial reporting, we follow the changes and revisions made to IFRS regulations. Different principles created for corporate governance also have a great impact on Specialfastigheter, since we are required as a state-owned company to be transparent and exemplary within many fields.	Medium	Very good
21 Taxes and fees	Changes made to the regulations for taxes and fees have a direct impact on our financial results. We follow developments in legislation and trends in standard practices to make sure we process tax and value added tax correctly. This mainly applies to changes in property tax, corporation tax, VAT and income tax. We always seek expert assistance for difficult issues in this area and we ensure the quality of our income tax calculations by recruiting external expertise.	Medium	Very good

# Sensitivity analysis

When performing risk analyses, it is important to conduct sensitivity analyses based on various scenarios to see which of them have the greatest impact on income, should they occur. In our own sensitivity analysis we noted that the cost of capital and the yield in terms of property valuations has the greatest impact on our earnings.

Variable	Change	Annualised earnings impact, SEK million
Rental income	+/- 1 percentage point	16.1
Property operations and utilities excl. electricity	+/- 1 percentage point	3.9
Maintenance expenses <sup>1</sup>	+/- 1 percentage point	2.9
Interest	+/- 1 percentage point	45.6
Market rates, derivative instruments <sup>2</sup>	+/- 1 percentage point	24.9
Price change, purchased covered bond <sup>3</sup>	+/- 1 percentage point	30.4
Cost of capital <sup>4</sup>	+ 0.25 percentage points	-314
Cost of capital <sup>4</sup>	- 0.25 percentage points	324
Yield <sup>4</sup>	+ 0.25 percentage points	-584
Yield <sup>4</sup>	- 0.25 percentage points	643

1) Includes capitalised maintenance expenses according to IFRS.

2) Impact on earnings relates to the change in value of derivative instruments.

3) The impact on earnings relates to momentary changes in deposited covered bonds as of 31 December 2017 with a nominal value of SEK 1,000 million.

4) Impact on earnings relates to change in value of investment properties.



Hinseberg correctional facility, Frövi

# GRI Sustainability Report

Specialfastigheter's Sustainability Report is integrated into its Annual Report and sustainability information pertaining to the GRI can be found in its various sections. This part of the Annual Report includes a description of our reporting principles and in-depth GRI information.

## Reporting principles

Specialfastigheter applies the 2016 GRI Standards: Core option for sustainability reporting together with the GRI's sector disclosures for Construction and Real Estate. Based on the company's strategies, targets, actual impact, expectations and interests of our stakeholders, Specialfastigheter has decided to report ten sustainability areas (11 GRI topics) that are material and relevant to us and our stakeholders. The selected sustainability areas and GRI disclosures are shown in the GRI list of contents on page 52. The Sustainability Report is an integral part of the Annual Report and sustainability information can be found in various sections, mainly in the front section of the report.

The Sustainability Report covers the entire company including subsidiaries, and is applicable to the full-year 2017. The organisation is not split into regions. The Sustainability Report follows the financial year and is published annually. The most recent Sustainability Report was published in the 2016 Annual Report on 23 March 2017. The report is cross checked internally and reviewed and certified by an external authorised public accountant.

No significant changes have been made regarding the information provided in the 2016 Annual Report. In the 2017 Annual Report however, Specialfastigheter is reporting two new material topics with accompanying indicators. Since the disclosures for material are not appropriate for us based on how we work, measure and set targets in the materials area, we have chosen to design our own indicator to measure chosen materials. Two topics are no longer included following last year's annual report. Changes to demarcations and/or reporting principles for the data reported are indicated in the relevant text or table.

Disclosures that have an environmental impact are reported with the property holdings for 2017. Descriptions of calculation and measurement methods, any limitations and assumptions are provided alongside each disclosure.

The energy monitoring system takes into account the date on which the area changed (for example, due to remeasurement, acquisition or divestment) and an average area for the year as a whole is then calculated. We have also updated the report to include a new type of media, biogas.

The contact for the Sustainability Report is Hanna Janson, Communications Director, telephone +46 10 788 62 10.



SIS juvenile care home, Rebecka, Ekerö

## Specialfastigheter’s governance of sustainability initiatives

Specialfastigheter’s Board is ultimately responsible for sustainability governance. In the management group, the CEO bears overall responsibility, but each head of department is responsible for integrating sustainability in the day-to-day operations. All of the organisation’s managers and employees are responsible for compliance with applicable policies and guidelines. The CEO is responsible for ensuring the requisite resources are in place for imple-

menting the sustainability agenda the company has committed to.

The table shows Specialfastigheter’s sustainability governance. The state’s ownership policy, the sustainability policy, the business plan and our management system provide overall governance and are therefore not specified below.

Material sustainability areas	Guidelines and instructions	Follow-up	Responsibility	Targets and outcomes 2017
<b>Economic performance</b>	Financial targets Financial policy Insider policy Market plan	Interim reports/year-end report Annual Report	CEO CFO	<b>Target:</b> Adjusted return on equity, 8% <b>Outcome:</b> 13.2%
<b>Security</b>	Overall security policy Information security policy Security protection agreements Guidelines on physical protection Guidelines on information about incident reporting Guidelines for insider and infiltration threats ISO 27001	Management review Ongoing security follow-ups Ongoing risk analyses Incident reporting	CEO Management group Head of Security Projects and Development Director	<b>Target:</b> No form of corruption or the giving or acceptance of bribes <b>Outcome:</b> 0 cases
<b>Customer satisfaction</b>	Management plan per property Market plan	CSI Customer dialogues	CEO Business Director Property Management Director Business area managers	<b>Target:</b> CSI 67 (2018) <b>Outcome:</b> CSI 65 (Dec. 2016)
<b>Work environment</b>	Guidelines on physical, organisational and social work environment Guidelines on managing substance abuse problems Instructions, action plan for bullying Equal treatment plan Swedish Work Environment Act Swedish Working Hours Act Swedish Annual Leave Act	Organisational analysis Follow-up of benefit of occupational health services Measuring absence due to illness Incident reporting system Human rights risk analysis	CEO Managers HR Director Head of Security Work Environment Committee Equal Treatment Committee	<b>Target:</b> All employees have a development plan linked to the skills inventory <b>Outcome:</b> 68%
<b>Supplier environmental and social conditions assessments</b>	Purchasing policy Code of Conduct for suppliers Purchasing agreements	Audits Self-assessments Whistle-blower system Implementation/follow-up meetings Risk analysis of human rights	Head of Purchasing, IT and Quality Managers	<b>Target:</b> Contract compliance 90% <b>Outcome:</b> 91%
<b>Anti-corruption</b>	Code of Conduct Purchasing policy Code of Conduct for suppliers Security policy Delegation arrangements	Whistle-blower system Audits performed by internal controls	CEO Managers	<b>Target:</b> No form of corruption or the giving or acceptance of bribes <b>Outcome:</b> 0 cases
<b>Emissions</b>	Strategic energy and environmental targets	Interim reports/year-end report Annual Report Media monitoring	Projects and Development Director	<b>Target:</b> Reduce CO <sub>2</sub> emissions by 35% (compared with the base year, 2012) <b>Outcome:</b> Reduction of 47%
<b>Energy</b>	Strategic energy and environmental targets Financial targets Financial policy	Interim reports/year-end report Annual Report Media monitoring	Projects and Development Director	<b>Target:</b> Energy consumption max 195.6 kWh per sq m <b>Outcome:</b> 199.4 kWh per sq m
<b>Material</b>	Environmental programme template for construction projects	Audits End documentation in the SundaHus database	Projects and Development Director Property Management Director	<b>Target:</b> Proportion of material with good environmental classifications in production should increase to 80% <b>Outcome:</b> 81.5%
<b>Equality and diversity</b>	Code of Conduct Equal treatment plan Swedish Discrimination Act	Measurement of key performance indicators for diversity and equal opportunities Salary survey Organisational analysis Survey of the company’s participation in workshops, “Växthuset” tool	Managers HR Director Equal Treatment Committee	<b>Target:</b> Increase the number of employees with foreign backgrounds to 10% <b>Outcome:</b> 10%

## Content Index as per GRI

Content Index as per GRI	Disclosure	Page	Global Compact principle
<b>GENERAL DISCLOSURES</b>			
<b>GRI 102: General disclosures</b>			
<b>Organisational profile</b>			
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102-2	Activities, brands, products, and services	2	
102-3	Location of headquarters	2	
102-4	Location of operations	12	
102-5	Ownership and legal form	3, 59	
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102-7	Scale of the organisation	2	
102-8	Information on employees and other workers	53	
102-9	Supply chain	27–29	
102-10	Significant changes to the organisation and its supply chain	27–29, 50	
102-11	Precautionary principle or approach	30, 31	7
102-12	External initiatives	53	
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<b>Strategy</b>			
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<b>Ethics and integrity</b>			
102-16	Values, principles, standards, and norms of behaviour	1, 51	
<b>Governance</b>			
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<b>Stakeholder engagement</b>			
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<b>MATERIAL TOPICS</b>			
<b>Economic performance</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	27, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	51	
<b>GRI 201: Economic performance</b>			
201-1	Direct economic value generated and distributed	54	
<b>Anti-corruption</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	25, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	51	
<b>GRI 205: Anti-corruption</b>			
205-3	Confirmed incidents of corruption and actions taken	25	10
<b>Material</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	31, 54	
103-2	The management approach and its components	30, 31, 51	
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Content Index as per GRI	Disclosure	Page	Global Compact principle
<b>Materials, Cont.</b>			
<b>GRI 301: Materials</b>			
	Share of A and B classed material registered in the SundaHus database (own indicator)	31	7, 8
<b>Energy</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	30, 54	
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<b>GRI 302: Energy</b>			
302-1	Energy consumption within the organisation	55	8
CRE-1	The use of energy in buildings	31	
<b>Emissions</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	30, 54	
103-2	The management approach and its components	30, 51	
103-3	Evaluation of the management approach	51	
<b>GRI 305: Emissions</b>			
305-1	Direct (Scope 1) GHG emissions	55	
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<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	28, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	28, 29, 51	
<b>GRI 308: Supplier environmental assessment</b>			
308-1	New suppliers that were screened using environmental criteria	28, 29	8, 9
<b>Occupational health and safety</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	32, 33, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	51	
<b>GRI 403: Occupational health and safety</b>			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	55, 56	1
<b>Diversity and equal opportunity</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	32, 54	
103-2	The management approach and its components	51	
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<b>GRI 405: Diversity and equal opportunity</b>			
405-1	Diversity of governance bodies and employees	32, 56, 57	1, 6
<b>Supplier social assessment</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	28, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	28, 29, 51	
<b>GRI 414: Supplier social assessment</b>			
414-1	New suppliers that were screened using social criteria	28, 29	1–6
<b>Security (company-specific topic)</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	24, 25, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	51	
<b>Security (company-specific areas)</b>			
	Qualitative description	24, 25	
<b>Customer satisfaction (company-specific topic)</b>			
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	23, 54	
103-2	The management approach and its components	51	
103-3	Evaluation of the management approach	51	
<b>Customer satisfaction (company-specific topic)</b>			
	Customer satisfaction index (CSI)	38	

## GRI – general disclosures and material sustainability areas

GRI information that cannot be found in the other parts of the Annual Report is published here.

### GRI 102-8 Information on employees and other workers

Gender distribution of temporary employees and permanent employees

Total number of employees	2015	2016	2017
Women	38 (29.7%)	39 (29.8%)	42 (29.2%)
Men	90 (70.3%)	92 (70.2%)	102 (70.8%)
<b>Total</b>	<b>128</b>	<b>131</b>	<b>144</b>

Total number of temporary employees	2015	2016	2017
Women	2	0	3
Men	1	0	1
<b>Total</b>	<b>3</b>	<b>0</b>	<b>4</b>

All figures pertain to 31 December in the year concerned.

All employees are full time employees. A certain proportion of the organisation’s work is carried out by external consultants, contractors or their subcontractors. These individuals are not covered by the summary. We are not able to report this separately as most of the external human resources work intermittently and only a few have consultancy assignments with fixed working hours. The invoicing system does not allow the retrieval of cost data specified by consulting hours. No significant seasonal variations in the number of employees occur.

### GRI 102-12 External initiatives

Initiative	
Fossil Free Sweden	Member
BELOK	Member
GreenChain	Member
NMC (The Swedish Association for Sustainable Business)	Member
NSD (the Confederation of Swedish Enterprise’s security delegation)	Member

### GRI 102-13 Membership of associations

Organisation	Type of participation
ASIS International Sweden (American Society for Industrial Security)	Member
BIM Alliance	Member
Swedish Construction Clients Forum	Member
	Member of the Ethics Council
Purchasing network (Specialfastigheter, Akademiska Hus, Jernhusen)	Member
Swedish Centre for Innovation and Quality in the Built Environment	Member
PurNet (purchasing network)	Member
Collaborative forum	Member of steering and management groups and various project groups (BIM, HUT, Rules and agreements)
Smart Built Environment	Member
SNOS (Säkerhet för näringsliv och samhälle)	Member
Stockholm Chamber of Commerce	Member, the CEO is a city councillor
TUC	The Head of Purchasing, IT and Quality is a member of the management group for strategic purchasing
Development of public sector property activities (UFOS)	Member

### GRI 102-41 Collective bargaining agreements

All employees are covered by collective-bargaining agreements. Specialfastigheter belongs to the Almega employers’ association and applies the civil servants’ union agreement for the property sector.



Workshop at the Halmstad correctional facility

## GRI 103-1 Explanation of the material topic and its Boundary

GRI topic	Topic boundary	Limitations
Direct economic value generated and distributed	Directly affects Specialfastigheter's business and development opportunities in the short and long term. Directly affects our stakeholders through the value we create for them, for example, in the form of owner dividends and tax to the state.	
Materials	Direct impact through the choice of material in property management. Indirect impact on contractors' use of materials through the material requirements we set for our contractors.	We report the share of registered materials that meet classes A and B in the Sunda-Hus database.
Energy	Direct impact through energy use at offices and by property management service vehicles. Indirect impact on technical installations in our properties and the choice of fuel through the material requirements we set for our contractors. Indirect impact through our tenants' energy use. Indirect impact through contractors' energy use for new builds, redevelopments and extensions and through our suppliers' energy use in the manufacture of materials.	We report our tenants' energy use in our property holdings as the energy used in our properties is considerable.
Emissions	Direct impact through emissions from energy used at offices and by property management service vehicles. Indirect emissions from our tenants' energy use. Indirect emissions from contractors' energy use for new builds, redevelopments and extensions and from our suppliers' emissions in the manufacture of materials.	We report emissions from energy used in our property holdings.
Occupational health and safety	Direct impact on the physical, organisational and social work environment internally at Specialfastigheter. Indirect impact on the work environment at suppliers and contractors by setting and following up on requirements for their work environments.	
Equality and diversity	Direct impact by promoting increased diversity at Specialfastigheter and in the property sector generally.	
Supplier social assessment	Indirect impact on working conditions and human rights at suppliers and contractors by setting and following up on requirements in terms of working conditions and human rights.	
Supplier environmental assessment	Indirect impact on environmental efforts at suppliers and contractors by setting and following up on environmental requirements.	
Anti-corruption	Direct impact in the procurement and purchase, and through internal courses as well as from contact with customers and suppliers. Indirect impact on anti-corruption efforts at suppliers and contractors by setting and following up on anti-corruption requirements.	
<b>Non-GRI aspects</b>		
Company-specific areas		
Security	Direct impact through our operational management that applies a security focus, including personal security, operational reliability, physical security and information security.	
Customer satisfaction	Direct impact, since our behaviour toward and our deliveries to customers are reflected in how satisfied our customers are.	

## GRI 201-1 Direct economic value generated and distributed

It is important for Specialfastigheter to create value for its owner and other stakeholders. We do this by strengthening our economic, environmental and social competitiveness as a property management company. Our responsibility to the owner is to generate a financial return. Good profitability and a strong financial position enables long-term action and makes planning for sustainable construction and sustainable property management possible. It also provides us with the ability to continue investing in the

skills development of our employees. Employee initiatives through daily dialogue and collaboration with our customers are invaluable in creating the right product for the customer's operation. Direct expenses that create value include salaries, training, taxes and fees as well as payments to suppliers for goods and services. Variable costs include expenses for absence due to illness and the taxes generated by staff and others.

Economic value generated	Stakeholders	2015	2016	2017
Rental income	Tenants	1,867	1,912	2,028
Financial income	Finance market	4	19	64
Property sales	Customers, property market	-1	4	29
<b>Distribution of economic value</b>				
Operating expenses	Suppliers	399	416	431
Salaries and benefits to employees	Employees	101	109	116
Payments to financiers	Finance market	230	98	137
Payments to the public sector (dividend)	Owner	446	497	560
Payments to the public sector (taxes)	Society	329	501	487
Unrealised change in value	Property market	-322	-865	-832
Unrealised change in value	Finance market	-45	38	63
<b>Remaining in Group</b>		<b>732</b>	<b>1,141</b>	<b>1,159</b>

**GRI 302-1 Energy consumption within the organisation**

Energy purchased for our properties such as electricity, district heating and how large a proportion is not renewable; biofuel, electric heating, bio oil, oil, gas and cooling. The total amount of energy purchased for our properties during the year was 790,340 GJ, compared to 807,611 GJ the previous year. The total amount of energy purchased in the previous year is adjusted to reflect the 2017 property holdings. During the year, we replaced fossil-fuel-derived energy with renewable energy at a number of properties. Energy use is followed up monthly at the property level and by energy type.

	2015	2016	2017
Electricity	392,161	398,719	388,230
District heating, renewable	265,408	267,350	271,108
Pellets	15,282	14,754	15,003
Bio oil	4,996	4,438	3,979
Biogas	0	0	3,717
Electric heating	24,425	24,708	22,981
Cooling	57,100	58,382	56,058
<b>Total renewable energy</b>	<b>759,373</b>	<b>768,351</b>	<b>761,077</b>
District heating, non-renewable	17,242	19,814	17,305
Oil	11,952	12,526	8,843
Gas	6,507	6,921	3,116
<b>Total non-renewable energy</b>	<b>35,701</b>	<b>39,261</b>	<b>29,264</b>
<b>Total (GJ)</b>	<b>795,074</b>	<b>807,611</b>	<b>790,340</b>

**GRI 305-1 Direct (Scope 1) GHG emissions**

Here we show emissions made up of direct emissions and emissions from our own production of heating. We use the Swedish Environmental Protection Agency model to calculate our total CO<sub>2</sub> emissions. Here we show emissions resulting from the use of oil, gas, pellets and bio oil use. CO<sub>2</sub> eq emissions from combustion have been retrieved from the Swedish Environmental Protection Agency, <http://www.naturvardsverket.se/Stod-i-miljoarbetet/Vagledning/Luft-och-klimat/Berakna-dina-klimatutslapp/> The CO<sub>2</sub> eq used for oil is 267.3g CO<sub>2</sub> eq/kWh, for gas 161.7g CO<sub>2</sub> eq/kWh, for biogas 0 g CO<sub>2</sub> eq/kWh, for pellets 7.1g CO<sub>2</sub> eq/kWh and for RME 8.1g CO<sub>2</sub> eq/kWh.

	2015	2016	2017
Non-renewable energy	1,216.5	1,237.6	796.54
Renewable energy	42.6	33.8	38.51
<b>Total</b>	<b>1,259.2</b>	<b>1,271.5</b>	<b>835.1</b>

**GRI 305-2 Energy indirect (Scope 2) GHG emissions**

Here we report emissions made up of indirect emissions from purchased electricity and heating, using the market-based approach. Each year, we update the CO<sub>2</sub> equivalents that we use when calculating CO<sub>2</sub> emissions. The calculation of carbon dioxide emissions resulting from our use of district heating was based on supplier information regarding the fuel mix used in delivering the major proportion of district heating to us during the year. The information is taken from <https://www.energiforetagen.se/pressrum/nyheter/2017/juni/fjarrvarmens-lokala->

[miljovarden-for-2016-klara/](#). With the help of the district heating providers who delivered most district heating to us over the year, CO<sub>2</sub> equivalents attributable to district heating were calculated as 54.9 g CO<sub>2</sub> eq/kWh. District heating CO<sub>2</sub> equivalents decreased due to the supplier choosing to produce more heat with renewable fuel, and because we contracted supplies of green district heating from a large supplier.

	2015	2016	2017
District heating, renewable	5,158.5	4,589.5	4,134.4
District heating, non-renewable	335.1	340.2	263.9
Electricity	0	0	0
<b>Total (tonnes, CO<sub>2</sub> eq)</b>	<b>5,493.6</b>	<b>4,929.7</b>	<b>4,398.3</b>

Reportable quantities of refrigerants are reported to the supervisory authority. Discharges are reported when discharges occur, which was not the case during 2017. The number of kilos of refrigerants increased partly due to property acquisitions and partly due to clearer reporting given the new legislative requirements.

Refrigerants, kg	2015	2016	2017
HFCs	2,908.35	2,828.46	3,260.62

**GRI 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities**

We offer all of our employees industrial injury, group life and healthcare insurance. We also make use of occupational health services where necessary. All of our employees who work in environments with an increased risk of contagious diseases are offered vaccinations.

During the year, 16 work environment incidents were reported in our incident reporting system. In 2016, 16 work environment incidents were reported and 22 during 2015. Registered work environment incidents cover high-risk conditions, near-accidents and injuries suffered by employees, consultants and contractors, and this reporting makes us better able to take preventive measures.

Work-related accidents, near accidents and injuries	2015	2016	2017
Number of serious near accidents reported	0	1	0
Number of serious accidents reported	0	0	0
Number of work-related accidents classified as work-related injuries that resulted in absence due to illness	1	0	1
Number of work-related accidents classified as work-related illness	0	1	1

The organisation is not split into regions and we do not have access to accident statistics broken down by gender. No work-related fatalities occurred during 2015–2017. We comply with Swedish legislation when recording and reporting accident statistics. Because the number of work-related accidents is so low, we do not find it meaningful to report accident ratios or ratios regarding work-related illnesses.

Absence due to illness, % of total working hours	2015	2016	2017
Men	1.84%	2.78%	1.05%
Women	4.95%	2.14%	3.44%
All employees	2.74%	2.60%	2.73%

Absence due to illness only refers to our employees, not consultants, contractors or their subcontractors. We do not report their absence due to illness separately as external human resources report any absence to their own employer and not to us.

### GRI 405-1 Diversity of governance bodies and employees

The compositions of the Board and executive management are presented in more detail on pages 66–67 and 68.

The proportion of employees with a foreign background is reported on page 32. The composition of the Board, executive management and employees is broken down by gender and age group. To enable comparisons with previous years, we report the distribution in the age groups 20–29, 30–39, 40–49, 50–59 and 60–69.

### Number of people on the Board including alternates and management

2015: Executive management: 5 women, 3 men.

Board: 6 women, 5 men.

2016: Executive management: 5 women, 3 men.

Board: 5 women, 6 men.

2017: Executive management: 5 women, 3 men.

Board: 5 women, 6 men.

### Gender and age breakdown, Board, management and employees

Board, including alternates		20–29	30–39	40–49	50–59	60–69	Total	Average age
2015	Women	0%	17%	17%	67%	0%	55%	48
	Men	0%	0%	0%	60%	40%	45%	57
	Total	0%	9%	9%	64%	18%		52
2016	Women	0%	20%	20%	20%	40%	45%	51
	Men	0%	0%	0%	67%	33%	55%	58
	Total	0%	9%	9%	45%	36%		54
2017	Women	0%	20%	20%	20%	40%	45%	52
	Men	0%	0%	0%	67%	33%	55%	59
	Total	0%	9%	9%	45%	36%		55

Management		20–29	30–39	40–49	50–59	60–69	Total	Average age
2015	Women	0%	0%	60%	40%	0%	63%	47
	Men	0%	0%	33%	67%	0%	38%	51
	Total	0%	0%	50%	50%	0%		49
2016	Women	0%	0%	60%	40%	0%	63%	49
	Men	0%	0%	0%	100%	0%	38%	53
	Total	0%	0%	38%	63%	0%		51
2017	Women	0%	0%	40%	60%	0%	63%	50
	Men	0%	0%	0%	100%	0%	38%	54
	Total	0%	0%	25%	75%	0%		52

Employees		20–29	30–39	40–49	50–59	60–69	Total	Average age
2015	Women	5%	21%	40%	32%	3%	30%	45
	Men	4%	17%	27%	46%	7%	70%	48
	Total	5%	18%	31%	41%	6%		47
2016	Women	0%	23%	36%	38%	3%	30%	46
	Men	2%	14%	28%	43%	12%	70%	48
	Total	2%	17%	31%	42%	9%		48
2017	Women	2%	17%	33%	45%	2%	29%	46
	Men	3%	19%	27%	36%	15%	71%	48
	Total	3%	18%	29%	39%	11%		47

Position	Women	Men	Total
CEO	1	0	1
Accounting and Finance	10	4	14
Purchasing, IT and Quality*	8	5	13
Management support (HR/Security/internal control/Executive Assistant to the CEO, Communication)	8	1	9
Business areas	1	5	6
Property management	6	68	74
Projects & Development	8	19	27
<b>Total</b>	<b>42</b>	<b>102</b>	<b>144</b>

\* In 2017, Operational support changed name to Purchasing, IT and Quality.

# Assurance Report

Auditor's limited assurance report on Specialfastigheter Sverige AB's (publ) Sustainability Report.

To Specialfastigheter Sverige AB (publ)

## Introduction

We have been engaged by the Board of Specialfastigheter Sverige AB (publ) to undertake a limited assurance engagement of Specialfastigheter's Sustainability Report for 2017. The company has defined the Sustainability Report's scope to the sections referenced in the GRI index on page 52.

## Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board and executive management are responsible for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria described on page 50 in the Sustainability Report comprising the applicable parts of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), as well as the accounting and calculation principles that the company has developed and disclosed. This responsibility also includes the internal controls considered necessary for preparing a Sustainability Report that does not contain material misstatements, whether due to fraud or error.

## Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the Sustainability Report based on the procedures we have performed.

We have conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by IAASB, and in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less extensive than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden.

The audit firm applies the International Standard on Quality Control (ISQC) 1 and, accordingly, has a comprehensive system for quality control comprising documented guidelines and routines for complying with ethical requirements, professional standards, and applicable laws and regulations. We are independent of Specialfastigheter Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Consequently, the procedures performed in a limited assurance engagement do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Accordingly, the conclusion based on a limited assurance engagement does not have the same degree of certainty as a reasonable assurance conclusion.

Our review is based on the criteria defined above and chosen by the Board and executive management. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 15 March 2018

Ernst & Young AB

Mikael Ikonen  
Authorised Public  
Accountant

Marianne Förander  
Accountant Expert  
Member of FAR



Stockholm police headquarters, Kronoberg, Stockholm

# Corporate Governance Report

## Message from the Chairman

Specialfastigheter is a company wholly owned by the state. This entails a special responsibility. Our owner – the nation's citizens – have the right to expect that we always act in a manner that inspires confidence and which meets the high standards demanded of a sustainable business operation. The state's ownership policy forms the basis of the Board's governance. This means that we comply with the Swedish Corporate Governance Code.

An organisational analysis completed at the start of the year found that confidence in the CEO, which was already strong, had improved further, that the management group is now working more strategically and that information to employees had increased. However, communication and collaboration between the units needed to be developed and therefore several activities were completed to improve it.

Continued intense competition for employees means Specialfastigheter has continued to work on its proactive skills sourcing strategy. Among other actions, this has entailed further leadership development, skills development in property management, recruitment of specialists and investments in increased diversity.

It is therefore pleasing to note a downturn in staff turnover and an upturn in diversity.

The extensive efforts to develop the company's governance and follow-up have continued and have, for example, led to building up a control unit. In the autumn, the Board decided to appoint a Deputy CEO and CFO Kristina Ferenius received this supplementary title from 1 January 2018.

The Board has discussed the formats for internal control and internal audit. The Board decides on whether to adopt the internal control plan prepared by the CEO.

The 2017 Board evaluation has shown that the Board, as in previous years, discharged its duties well and that collaboration between the Board and the CEO is excellent. According to the evaluation, additional time for analysing business intelligence in the property sector and with customers is desirable.

*Bo Lundgren, Chairman of the Board*



## Corporate governance at Specialfastigheter

Specialfastigheter Sverige AB is characterized by the company's ability – from a sustainable social perspective – to create well-functioning principles and processes that enable the efficient and controlled management, leadership and development of operations. Specialfastigheter's corporate governance report forms part of the statutory annual report.

## State ownership

Specialfastigheter Sverige AB is a Swedish limited liability company wholly owned by the Swedish state. The owner governs Specialfastigheter through the General Meeting of shareholders and the Board of Directors in accordance with the Swedish Companies Act, the Articles of Association and the instructions in the form of the state's ownership policy and other guidelines adopted by the government ([www.regeringen.se](http://www.regeringen.se)).

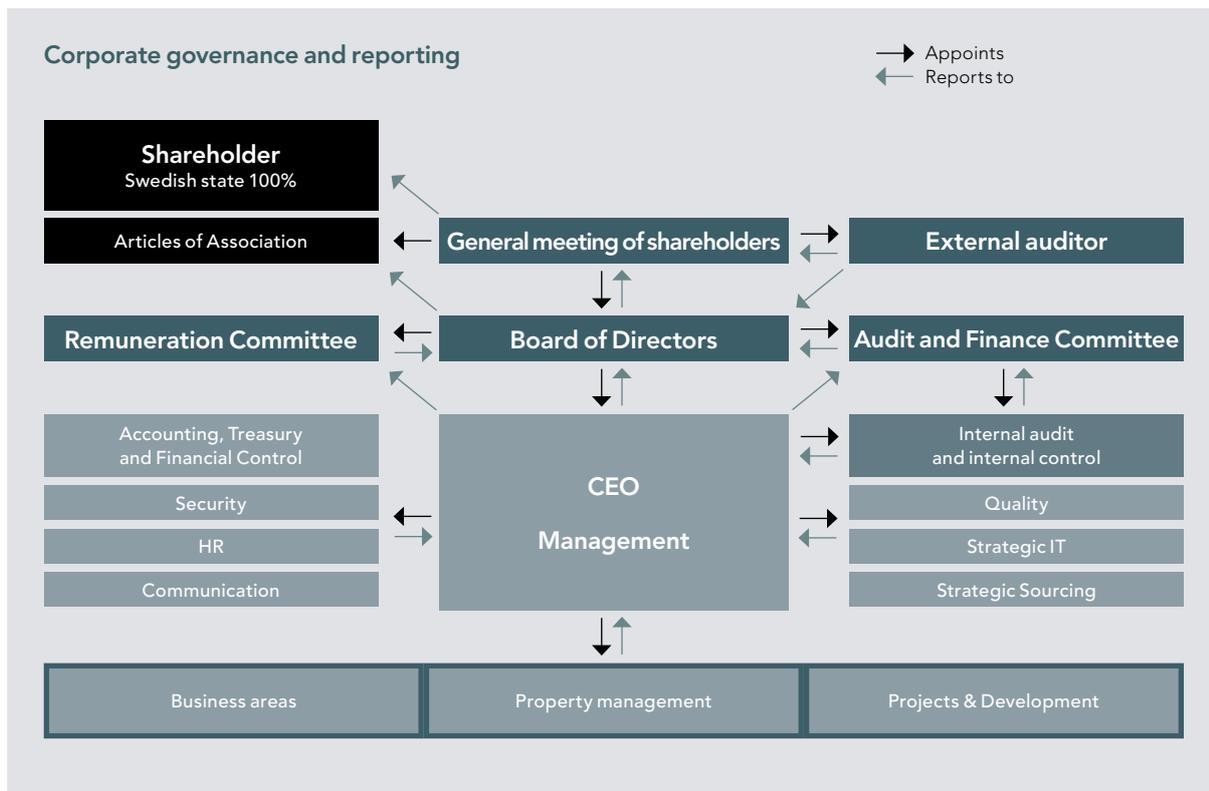
## Corporate governance

Specialfastigheter's corporate governance is based on Swedish legislation and regulations, and the state's ownership policy stipulates that state-owned companies must act in an exemplary manner in the field of sustainable enterprise and otherwise act in a manner that inspires public confidence. Integrating a sustainability approach into

operations is a natural part of the long-term business strategy and business development. Sustainability activities are reported in accordance with the GRI Standards: Core option. During the year, efforts focused on increasing awareness and skills among managers and employees in relation to diversity. We have also conducted a risk analysis pertaining to human rights to gain an understanding of any such rights we risk violating, the consequences of such violations and how we can prevent this. Our risk management enables us to identify threats and opportunities and, based on this, the company's overarching strategy areas and goals are established. We apply the Swedish Corporate Governance Code, (the Code) ([www.corporategovernanceboard.se](http://www.corporategovernanceboard.se)). In accordance with the Comply or Explain principle of the Code, the government has justified deviations in certain matters.

Based on this, Specialfastigheter deviates from the Code as follows:

- The owner's guidelines mean that the Code rules concerning the preparation of decisions on the nomination of Board members and auditors are replaced by a special process for state-owned companies.
- The independence of the members of the Board in relation to the state as a major shareholder is only reported in relevant listed companies.



- According to the Code, the CEO may be a member of the Board but not its Chairman. The government considers it important to separate the Board's and the CEO's roles. Accordingly, the CEO may not be a member of the Board.
- Specialfastigheter has no internal audit function independent from management as described under rule 7.3 of the Code. When audit requirements are identified by the Board, these are procured externally from independent auditors. The principal reason for these deviations from the Code is that Specialfastigheter has only one owner, while the Code is mainly aimed at listed companies with dispersed ownership.

### Articles of Association

Because the state owns 100% of the company, there is no regulation governing shareholding per shareholder contained in the Articles of Association. The Articles of Association lack specific regulations on the appointment and dismissal of Board members or on changes to the Articles of Association. The Articles of Association are approved at general meetings of shareholders and are available in their entirety on the company's external website.

### General meeting of shareholders

Specialfastigheter's highest decision-making body is the general meeting of shareholders. The Annual General Meeting (AGM), which is held within four months of the end of the financial year, considers the progress of the company and passes resolutions on a number of central issues, such as the election of Board members and auditors, adoption of the company's balance sheets and income statements, the distribution of profits and discharge from liability of the members of the Board and the CEO. The AGM also decides on financial targets and

changes to the Articles of Association, and approves the Sustainability Report. The general meeting has not authorised the Board to decide on whether the company shall issue new shares or acquire its own shares.

The Board is responsible for convening the general meeting of shareholders. The Board proposes guidelines to the AGM for the remuneration of senior executives for approval, and reports on whether guidelines decided upon previously have been adhered to and the reasons for any deviations. Specialfastigheter calls an AGM no earlier than six weeks and no later than four weeks before the meeting. The company provides information on its website regarding the time and place for the AGM in conjunction with the interim report for the third quarter, which is normally at the end of October.

The 2017 AGM was held on 24 April. The AGM was open and the general public was invited to attend together with other specially invited persons such as members of the Swedish parliament, customers and other stakeholders who were given the opportunity to pose questions and receive answers. The owner was represented by Department Secretary Gustaf Hygrell from the Government Offices of Sweden. The 2018 AGM will be held on 17 April. Documents prior to, and minutes from our AGMs are available on Specialfastigheter's external website.

### Board composition and working method

The Board is responsible for ensuring that companies in which the state participates are managed in an exemplary fashion within the framework provided by legislation, the company's Articles of Association, the state's ownership policy and any other owner instructions.

### Board nomination process

For wholly state-owned companies, the following principles replace the rules of the Code regarding the preparation of decisions on the appointment of Board members and auditors:

- Uniform and common principles for a structured Board nomination process are applied. The aim is to ensure an effective supply of skills and expertise to the companies' boards.
- The nomination process is coordinated by the unit for company analysis and corporate governance at the Ministry of Enterprise and Innovation.
- A working group analyses needs for skills and expertise on the basis of the company's operations, situation and future challenges as well as the composition of the Boards concerned. Any recruiting needs are then determined and recruitment process begins.
- Members are selected from a broad recruitment base with the aim of making best use of the skills and expertise of men and women alike, as well as people with different backgrounds and experience.

A more detailed description of the nomination process can be found in the state ownership policy. Once the process is completed, nominations are published in accordance with the Code.

### Board composition

The owner's point of departure when nominating each of the Board members is the Board's skills requirement based on the relevant issues for the company. Board members must continuously acquire knowledge about the company that is necessary for the assignment. According to the Articles of Association, Specialfastigheter's Board may comprise no fewer than three and not more than ten members elected by the general meeting. The employee organisations have the right to appoint a total of two full members and two alternate members. Board members are elected for one year at a time.

Newly elected Board members are introduced to the company's business focus, market, policies and systems for internal control and risk management. During 2017, Specialfastigheter's Board consisted of seven members elected by the general meeting and two full members and two alternates appointed by the employee organisations. Erik Tranaeus, Investment Director at the Ministry of Enterprise and Innovation, has been co-opted for the period covering Ulrika Nordström's maternity leave from June.

### Independence requirement

The state's ownership policy states that nominations to the Board must be published in accordance with Code's guidelines, with the exception of reporting independence in relation to major shareholders. The reason why the company must report Board member independence is primarily to protect minority shareholders in companies with dispersed ownership. Wholly state-owned companies thus lack such reasons for reporting independence.

### The work of the Board

The Board is responsible for managing the company within the confines of the law and in accordance with the owner's long-term interests. Corporate governance is conducted from a social perspective and safeguards the company's value-creating abilities in the long term. The Board bears the ultimate responsibility for the organisation and administration of the company. The most important policy documents are:

- Articles of Association
- Minutes from general meetings
- The state's ownership policy and other guidelines
- Rules of procedure for the Board, instructions for the allocation of work between the Board and the CEO, instructions for financial reporting and policies adopted by the Board During 2017, the Board held one statutory meeting and eight scheduled Board meetings.

Board member attendance at Board meetings in 2017 is presented in the table below.

### Board composition and attendance in 2017

	Elected, year	Board and committee fee, SEK thousand	Board meetings	Remuneration Committee	Audit and Finance Committee
Bo Lundgren, Chairman	2013	258	9/9	4/4	
Jan Berg	2009	150	9/9		5/5
Carin Götblad	2013	130	8/9	4/4	
Eva Landén <sup>1</sup>	2014	160	9/9		5/5
Mikael Lundström	2013	130	9/9	4/4	
Ulrika Nordström <sup>2</sup>	2015		4/9	2/4	2/5
Erik Tranaeus <sup>3</sup>			5/9	2/4	3/5
Maj-Charlotte Wallin	2016	150	8/8		4/5
Masoomah Antonsson <sup>4</sup>	2013		9/9		
Roger Törngren <sup>5</sup>	2011		8/9		
Tomas Edström <sup>6</sup>	2013		8/9		
Erik Ydreborg <sup>7</sup>	2016		9/9		

1) Chairman of the Audit and Finance Committee

2) Maternity leave from June to December 2017

3) Co-opted during Ulrika Nordström's maternity leave

4) Employee representative

5) Employee representative

6) Alternate employee representative

7) Alternate employee representative

### Agenda items during the year

During 2017, the issues addressed by the Board included the following:

#### February

- The state's ownership policy and other guidelines for state-owned companies
- Auditors' report on internal control and the annual accounts
- Decision on annual accounts for 2016 including proposed dividend
- Decision to refrain from a Group contribution and a shareholder contribution
- Decision to set a ceiling for borrowings
- Decision on investments and sales
- Decision on auditors
- Management of housing lets
- Internal control plan 2017

#### March

- Decision on the 2016 Annual Report and Sustainability Report
- Preparation of rules of procedure for the Board and its committees, and CEO's instruction
- Preparation of policies
- Adoption of guidelines for remuneration of senior executives
- Decision on the notice regarding the 2017 AGM for the 2016 financial year
- Decision on investments and sales

#### April

- Adoption of the interim accounts and interim report
- Statutory Board meeting and adoption of the Board's rules of procedure including the CEO's instruction and instructions for financial reporting, rules of procedure for the Remuneration Committee, rules of procedure for the Audit and Finance Committee and approval of delegation arrangements.
- Adoption of company-wide policies, the Supplier Code of Conduct and the Code of Conduct
- Decision on investments

#### December

- Review of risks and risk management
- Capital structure and dividend forecast
- Overview of company insurance policies
- Evaluation of the Board, the CEO and internal control
- Adoption of the 2018–2022 business plan and the 2018–2019 budget
- Proposals for election of external auditors
- Decision on the need for independent internal audit
- Field trips

#### October

- Discussion regarding forthcoming business plans
- Adoption of the interim accounts and interim report
- Preliminary capital structure and dividend
- Yield requirement for energy projects
- Decision on increased scope for commercial paper
- Investment decisions

#### September

- Follow-up of the business plan
- Report on personnel issues
- Follow-up of the internal control plan (current year)
- Adoption of the annual plans for committee and Board meetings in 2018
- Discussion of risks and risk management
- Risk analysis of human rights
- Decision to appoint a Deputy CEO
- Decision on acquisitions and sales

#### June

- Discussion with the management regarding business and communication strategies
- Decision on investments and sales

#### July

- Adoption of the interim accounts and interim report
- Decision on sales
- Auditors' Q2 report

The work of the Board takes place in accordance with the rules of procedure adopted annually at the statutory meeting of the new Board following the AGM. The rules of procedure govern the delegation arrangements within the company as well as the procedure for Board meetings, reporting instructions and the allocation of work between the Board, its Chairman, the CEO and Board committees. The work of the Board focuses on strategic issues, such as the focus of operations, material policies, market, finance and economics, major investments, risks, personnel and leadership, internal control and efficiency, and sustainable development in regard to financial, environmental and societal responsibility. During the year, the Board adopted policies in respect of finance, sustainability, information security, purchasing, communications, quality, security and insiders. Other important policy documents adopted by the Board are the business plan including the budget,

and the highest loan amount. The Board appoints the CEO and approves any significant positions the CEO may occupy outside the company. When the company is faced with especially important decisions, the Board, acting through its Chairman, must coordinate its view with representatives for the owner and present it in writing prior to a Board decision.

#### Audit and Finance Committee

The Audit and Finance Committee includes at least three members appointed by the Board of which one is the Committee's Chairman. The CEO and CFO also participate in the Committee, along with other company representatives when deemed necessary. The principal assignments according to the adopted rules of procedure include supervising the company's financial reporting, preparing quarterly reports for adoption by the Board,

supervising the efficiency of the company's internal controls and risk management with regard to financial reporting, supervising the company's work with capital structure and other financing issues including the management of financial risks and, together with company management, the preparation of financing matters, finance strategy and policies for adoption by the Board. The Committee is obliged to prepare minutes of its meetings and make the minutes available to the Board. During 2017, the Committee held five scheduled meetings. Committee member attendance is shown in the table "Board composition and attendance during 2017."

### Remuneration Committee

The Board appointed a Remuneration Committee that includes the Chairman of the Board and a minimum of an additional two members specially appointed by the Board. The CEO is present at Committee meetings as the recorder and the company's HR Director usually participates. The Remuneration Committee's principal task according to the adopted rules of procedure, is to prepare matters for the Board regarding remuneration, remuneration principles and other terms of employment for the CEO and other members of company management, monitor and evaluate the application of guidelines for remuneration of senior executives as resolved by the AGM and applicable succession planning, remuneration structures and levels on an overall level in the company. The committee must follow up and evaluate the application of these guidelines. The meetings must be minuted and the minutes provided to the Board.

The Committee held five scheduled meetings during 2017. Committee member attendance is shown in the table "Board composition and attendance during 2017."

### Remuneration of senior executives

Salaries and other benefits to personnel in company management positions must be reasonable and competitive. Remuneration must follow, not lead, current market trends. This is achieved through comparisons with other relevant companies. Remuneration must be characterised by moderation, prudence, be well balanced and contribute to good ethics and corporate culture, and reflect the responsibility the work entails. The company has no variable salaries or any forms of incentive programmes. The CEO has a defined-contribution pension plan. Pension terms for other senior executives follow an ITP (supplementary pension) plan; employees engaged after 2013 have a defined-contribution pension plan.

For information regarding salaries and remuneration, refer to Note 7, Consolidated Financial Statements.

During 2017, the company adhered to the employment condition guidelines for senior executives adopted by the general meeting of shareholders. The Board proposes that the company continue to follow these guidelines during 2018.

### Remuneration of the Board

Information regarding remuneration of Board members approved by the 2017 AGM is available in the annual report, Note 7, Consolidated Financial Statements.

### The Board's evaluation of its own work

The work of the Board is subject to annual evaluation. Work undertaken in 2017 was evaluated by means of an online questionnaire. The evaluation also includes a measurement of how effectively internal controls are perceived to function in the company. The results of the evaluation will be compiled, discussed and reported to Committees, the Board and the owner.

### CEO

The CEO must ensure that the Board receives reports concerning the progress of Specialfastigheter's operations in respect of such matters as the company's earnings trend, financial position and liquidity, information on the status of major projects, the efficiency of internal controls and important events. Reports must be structured in such a way that the Board is able to make well-founded assessments. An instruction regarding the allocation of work between the Board and CEO, and which clarifies the distribution of responsibilities and reporting, is approved annually. The CEO does not serve as a Board member.

The most important policy guidelines that must be approved by the CEO include the company's strategies, operational goals, information security, risk management, delegation arrangements, continuity planning, law lists (information concerning the most important changes in legislation that affect the work environment, the environment and construction), Code of Conduct and Supplier Code of Conduct.

### Auditors

Auditors are elected by the owner at the AGM. The Board presents proposals for the election of auditors to the AGM based on a recommendation from the Board's Audit and Finance Committee. The proposals for the appointment of auditors are drafted in accordance with the rules contained in the EU Audit Regulation and Directive and are published in accordance with Code's guidelines.

Ernst & Young AB were elected as auditors at the 2017 AGM with Mikael Ikonen as auditor in charge. The election took place for the period up until the close of the 2018 AGM.

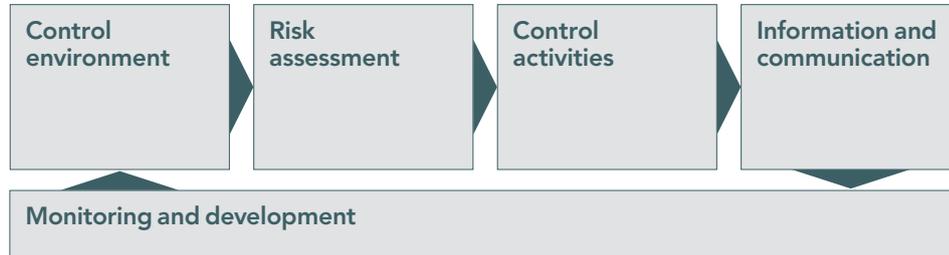
Presentation of auditor; refer to page 67.

The auditors elected by the AGM perform an annual review of the internal control. The auditors reported to the Board twice and to the Audit and Finance Committee on four occasions in 2017. In addition to the regular audit, Ernst & Young AB conducts annual examinations at our offices.

The review of Specialfastigheter's 2017 Sustainability Report was conducted by Ernst & Young AB. The report was assured by Authorised Public Accountant Mikael Ikonen and Marianne Förander, Expert Member of FAR.

For information regarding auditor fees, refer to Note 5, Consolidated Financial Statements.

## Description of internal control and risk management regarding financial reporting



This description has been prepared in accordance with the Swedish Annual Accounts Act and the Code, and is therefore limited to how internal control over financial reporting is organised. The Board's statement regarding internal governance and control is based on the framework document COSO (The Committee of Sponsoring Organizations of the Treadway Commission). Internal control is undertaken not just through regulations and instructions but primarily by staff at every level of the organisation. The internal control system for financial reporting seeks to provide reasonable assurance that the company's external reporting is complete and correct. The aim of the internal control is to limit the risks of irregularities occurring that would affect the view or assessment of the company's financial results and position, ability to meet set business objectives and/or the owner's expectations of the company. It is therefore important that internal control over financial reporting be adapted to the company's risk assessment. The Board considers Specialfastigheter to have well-structured accounting and financial management and internal controls.

### Control environment

The basis for internal control over financial reporting is the control environment comprising the organisation, its culture, and decision paths, powers and responsibilities documented and communicated in policy documents such as company policies, guidelines and instructions. Specialfastigheter's internal controls are aimed at identifying, measuring and minimising risks in the operation. The controls comprise both preventive and controlling components.

Rules of procedure between the Board and CEO provide a clear allocation of responsibilities to ensure good internal controls. Responsibility for maintaining an effective control environment and the day-to-day internal control work and risk management is delegated to the CEO through the rules of procedure. The allocation of responsibility and delegation within the company are further clarified in our delegation arrangements. Company-wide policies are approved by the Board and updated at least once a year. Internal guidelines and instructions are decided by the CEO, or the individual the CEO has delegated these powers to, and are updated on an ongoing basis.

During the year, the Audit and Finance Committee followed up and supervised the financial reporting and efficiency of the company's internal controls and risk management.

Our management system forms an important part of our control environment and aims to ensure we work in line with our assignment and our business model. Leading operations with the aid of a management system entails a systematic focus on customers (external and internal), a process-oriented approach and driving constant improvement efforts. Our system controls our working method through clear processes and policy documents that are linked to each process. Specialfastigheter's management system is certified for information security according to the ISO/IEC 27001:2013 standard. A periodic audit of the certification was carried out in May and no deviations were reported.

Every year, a number of internal operational audits of the management system take place. These are not independent internal audits according to the Code, but audits that comply with ISO standards. Specialfastigheter has trained internal auditors among its employees, who audit our processes and policies to check how effectively these function and are complied with. The internal auditors also contribute to the dissemination of information about our management system and they form an important part of the learning organization and efforts for constant improvements. The internal audit aims to ensure compliance with legislation, regulations, internal rules and best practices. The CFO, head of finance and controllers provide support for internal controls in business planning, financial calculations, analyses and follow-ups. The company's IT manager provides IT support and access and supervises IT system access, security and authorisations. The company has a whistle-blower function to enable attention to be drawn anonymously to irregularities.

### Risk assessment

Assessments regarding the risk of errors in the financial reporting are made by the Board, management, the units and the external auditors. A risk analysis seeks to identify processes where the risk of substantial errors in financial reporting is greatest. Specialfastigheter's risks are described on pages 45–49. Our risk analysis tool helps us systematically identify, analyse, evaluate and follow-up risks at every level on an ongoing basis. The risk analyses are reviewed and analysed in turn, and management assesses risks from a company perspective.

### Control activities

Activities that are drawn up based on the risk analysis aim to manage significant risks identified to eliminate or limit the occurrence or effects of said risks. The Board and management are informed about compliance with policy documents and processes, and the effectiveness of the control structures. The management system contains the processes that show how Specialfastigheter should proceed and the controls that must be performed. Specialfastigheter's documented allocation of responsibilities, decision-making and delegation arrangements permeate all of our processes. IT controls that support processes and influence internal controls are created in our computer systems. There are also well-functioning internal reporting procedures.

In order to ensure financial reporting regarding the company's income and expenses follow internal guidelines and instructions, analyses and crosschecks are carried out by the internal auditors at various levels in the organisation, for example, in respect of deviations from approved plans and previous outcomes. During the year, we improved controls in our purchasing process. Control activities are also implemented in the processes specified in the internal control plan, with the objective of developing the processes and preventing, detecting and correcting any errors or deviations.

### Information and communication

The company's policy documents in the form of internal guidelines and instructions regarding financial reporting, are updated on an ongoing basis by process owners and management and made available and known to employees via our internal information and communications channels. Specialfastigheter's management system and intranet contain information that enables rapid communication with all employees to inform them of new rules and guidelines regarding financial reporting. All of our staff bear responsibility for keeping up-to-date with rules and regulations and for complying with our guidelines. The Board regularly receives reports and financial information from the CEO and external auditors. Specialfastigheter complies with the guidelines for external reporting described in the state's ownership policy. Reporting according to GRI Standards helps us clearly communicate our sustainability.

### Monitoring and development

Monitoring takes place on an ongoing basis at several levels within the company. The budget is approved annually by the Board, which receives financial reports and reconciliations from company management on a quarterly basis at a minimum in connection with interim reports. The company's external auditors report their observations from reviews and their assessment of internal controls to the Audit and Finance Committee and the Board at the scheduled autumn meeting, the final audit and as necessary. This takes place in the presence of company management or not, as the case may be. In the business plan and account closing processes, management regularly carries out reconciliations and follow-ups of operations. In order to ensure uniform financial reporting, there is an approved report plan.

Follow-ups of completed investment projects are presented to the Board on an ongoing basis during the year. The company's external auditors continually report the results of reviews performed, actions to be taken and the status of the latter to company management. Activities and action plans stemming from risk management are followed up on an ongoing basis. When necessary, Specialfastigheter engages external consultants to scrutinise and follow-up areas for the purpose of discovering opportunities for improvement, any discrepancies and/or irregularities. The results of audits, follow-ups and risk analyses carried out are reported to the CEO and company management.

### Internal audit

Specialfastigheter has no internal audit function independent from management as described under rule 7.3 of the Code. When audit requirements are identified by the Board, these are procured externally from independent auditors. The Board considers the follow-up reported by the CEO, internal controls and internal audits in the management system in accordance with this document combined with the review by the external auditors, to be sufficient to ensure that internal control over financial reporting is effective, and does not contain any significant errors. The internal business audit described in this report concerns only the audit of the company's management system based on the requirements of the standards the company adheres to.

# Board of Directors



## Bo Lundgren

Chairman of the Board  
Own business  
Elected 2013

### Other board assignments

Chairman of SVEDAB, Öresundsbronkon-sortiet, Sparbankernas Riksförbund, Spar-banksstiftelsen Finn, Lundgren & Hagren AB, Vice Chairman of Sparbanken Skåne

### Previous experience

Director, Swedish National Debt Office, 2004–2013, Cabinet Minister, 1991–1994, Member of the Swedish Riksdag 1976–2004

### Education

Graduate in Economics, Lund University, Honorary Dr. in Economics

### Born

1947



## Jan Berg

Own consultancy  
Elected 2009

### Other board assignments

Board member of Agenta Investment Management AB

### Previous experience

Head of Credit, Venantius AB, Project Manager, Securum AB

### Education

Graduate in Engineering, CTH

### Born

1953



## Carin Götblad

Regional Police Commissioner  
Elected 2013

### Other board assignments

Board member of Interpeace and the Beridna Högvakten

### Previous experience

Police Commissioner, Stockholm County, Gotland County and Varmland; General Counsel, SiS; Chief clerk, district court; legal counsel, Swedish Agency for Youth and Civil Society, Swedish Psychological Association; National Board of Health and Welfare coordi-nator against violence in close relationships

### Education

National Police Board Chief of Police pro-gramme, Bachelor of Laws, FBI, Preschool teacher programme

### Born

1956



## Eva Landén

CEO of Corem Property Group AB (publ)  
Elected 2014

### Other board assignments

Board member of Klöver AB (publ)

### Previous experience

Authorised Public Accountant, PwC, CFO Bonnier Cityfastigheter, CFO Corem Property Group AB

### Education

MSc Business and Economics, Uppsala University.

### Born

1965



## Mikael Lundström

CEO, NAI Svefa AB  
Elected 2013

### Other board assignments

Board member of Elof Hansson Holding AB, AB Göta kanalbolag. Chairman of Värderings-data AB, Fasticon AB

### Previous experience

CEO, Akademiska Hus AB, Deputy CEO, Jones Lang LaSalle AB, Head of Market Area, Skandia Fastigheter AB, Head of Administration, NCC Fastig-heter AB

### Education

Graduate in engineering, KTH Royal Institute of Technology

### Born

1961



## Ulrika Nordström

Department Secretary, Ministry of Enterprise and Innovation,  
Elected 2015

### Other board assignments

None

### Previous experience

Consultant, Boston Consulting Group; Investment Manager, Government Offices of Sweden

### Education

BSc Economics, SSE

### Born

1982



**Maj-Charlotte Wallin**

Own business  
Elected 2016

**Other board assignments**

Board member of the Swedish Heart-Lung Foundation and the Fourth Swedish National Pension Fund

**Previous experience**

CEO of AFA Försäkring, Deputy CEO Alecta pensionsförsäkring, CEO Jones Lang LaSalle AMS AB, CEO Nordbanken Fastigheter AB, Adm. Manager Bredenberg & Co AB, Controller Nordbanken Finans AB

**Education**

BSc Economics, SSE

**Born**

1953

Employee Representative



**Masoomah Antonsson**

Employee Representative  
Appointed 2013

**Other board assignments**

None

**Previous experience**

Consultant, Ibitec, Consultant, Invid, Consultant, Qurius

**Education**

Systems analyst, Orebro University

**Born**

1975

Employee Representative



**Roger Törngren**

Employee Representative  
Appointed 2011

**Other board assignments**

None

**Previous experience**

Property Management Engineer, Specialfastigheter, Service Technician, Vasakronan, Project programmer, control systems, TASAB.

**Education**

Control systems/operations technology, Qualified property management

**Born**

1965

Employee Representative



**Tomas Edström**

Alternate member for Employee Representative  
Appointed 2013

**Other board assignments**

Chairman, Central Sweden Volleyball Association, Manomet Rock AB

**Previous experience**

Head of Operations, AB Tierpsbyggen, Asset Manager, Sundsvall's municipality

**Education**

Mechanical engineer

**Born**

1964

Employee Representative



**Erik Ydreborg**

Alternate member for Employee Representative  
Appointed 2016

**Other board assignments**

None

**Previous experience**

Industrial floor installer, building maintenance technician, service technician

**Education**

High School Engineer, four-year electrical power studies

**Born**

1967

Auditor



**Mikael Ikonen**

Auditor in Charge,  
Ernst & Young AB

**Other significant audit assignments**

Bonava AB, D. Carnegie & Co AB, Corem Property Group AB, Hemsö AB, Slättö Förvaltning AB

**Born**

1963

# Management



**Åsa Hedenberg**  
CEO

**Previous experience**  
CEO, Huga Fastigheter AB; CEO, Uppsala hem AB; Market Area Manager AP Fastigheter; Head of Development Properties, SEB Asset Management; Property Manager, Hantverks- och Industribyggen; Property Manager, Skanska Fastigheter AB

**Board assignments**  
Ledamot Bonava AB, Envac AB

**Education**  
Graduate in engineering, Surveyor, Royal Institute of Technology

**Born**  
1961

**Employed since**  
2014

**Kristina Ferenius**  
Deputy CEO and CFO

**Previous experience**  
Head of Finance, Huga Fastigheter AB; CFO Enaco AB; Business Controller Coor Service Management Sverige AB; CFO Skanska Guest Relocation AB; Head of Accounts, Swedish Enforcement Authority in Stockholm

**Education**  
Master's degree in economics, Stockholm University

**Born**  
1968

**Employed since**  
2015



**Torbjörn Blücher**  
Business Director Sweden

**Previous experience:**  
Head of Property Unit, Swedish Fortifications Agency; Property Manager, Malmstaden AB (subsidiary of Tornet Group); Property Manager, Prevoluta AB

**Education**  
Technical structural engineer

**Born**  
1966

**Employed since**  
2005

**Hanna Janson**  
Communication Director

**Previous experience**  
Communications Manager Akademiska Hus AB region Stockholm; Pro tem Communications Director Akademiska Hus AB; Consultant, J KL AB Gothenburg and Stockholm

**Education**  
BSc Economics, SSE

**Born**  
1975

**Employed since**  
2015



**Christina Burlin**  
Human Resources Director

**Previous experience**  
Personnel Director, Swedish Maritime Administration; Group Personnel Director, Ostgota Correspondenten; Personnel Director, SAAB Civil Aircraft

**Education**  
Bachelor of Arts Study programme in personnel management

**Born**  
1962

**Employed since**  
2012

**Henrik Nyström**  
Head of Purchasing, IT and Quality

**Previous experience**  
Head of Purchasing, Partnertech AB; Strategic Purchasing, Ericsson; Strategic Purchasing, SAAB Aircraft

**Education**  
Economics (upper secondary school)

**Born**  
1963

**Employed since**  
2007



**Göran Cumlin**  
Projects and Development Director

**Previous experience**  
Property Manager, Sollentunahem; Technical Manager, Stockholm Student Housing (SSSB); Regional Manager, SWECO Project Management

**Board assignments**  
Vice Chairman, SSSB

**Education**  
Graduate in engineering, Royal Institute of Technology

**Born**  
1963

**Employed since**  
2015

**Åsa Welander**  
Property Management Director

**Previous experience**  
District Manager, Fastighets AB Forvaltaren; Head of Leasing Bostader Fastighets AB Forvaltaren; Property Manager, Bygg-Vesta AB

**Education**  
Law studies, Stockholm University

**Born**  
1973

**Employed since**  
2015

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## Consolidated income statement, SEK million

	Note	Full-year 2017	Full-year 2016
Rental income		1,846	1,751
Other income	2	182	161
<b>Income from property management</b>		<b>2,028</b>	<b>1,912</b>
Property expenses	3	-533	-503
<b>Net operating income</b>		<b>1,495</b>	<b>1,409</b>
Administration	4, 5	-55	-61
Financial income	6	64	85
Financial expenses	6	-137	-164
<b>Profit from property management</b>	7	<b>1,367</b>	<b>1,269</b>
Realised gain on property sales	8	29	4
Change in value of investment properties, unrealised	9	832	865
Change in value of financial instruments, unrealised	6	-63	-38
<b>EBT</b>		<b>2,165</b>	<b>2,100</b>
Tax	10	-446	-462
<b>Net profit for the year</b>		<b>1,719</b>	<b>1,638</b>
Of which attributable to the Parent Company's shareholder		1,719	1,638

## Consolidated statement of comprehensive income, SEK million

	Full-year 2017	Full-year 2016
Net profit for the year	1,719	1,638
<b>Total other comprehensive income for the year, net after tax</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>1,719</b>	<b>1,638</b>
Of which attributable to the Parent Company's shareholder	1,719	1,638

## Comments to the income statement

### **Income from property management totalled SEK 2,028 million (1,912).**

Rental income increased to SEK 1,846 million (1,751) as a result of new leases. Other income rose to SEK 182 million (161), mainly due to a SEK 9 million increase in modifications for customers and a rise of SEK 18 million in revenue from media. Compensation received was SEK 7 million lower than in 2016.

### **Property expenses, SEK 533 million (503)**

Our property expenses increased due to higher costs for customer modifications of SEK 9 million and a SEK 12 million increase in media costs. In addition, we have agreed compensation of SEK 10 million with customers for unforeseen changes pertaining to projects at the Kronoberg property.

### **Net operating income, SEK 1,495 million (1,409)**

Measured in SEK, net operating income was up year-on-year and was largely attributable to our increase in rental income.

### **Surplus ratio, 73.7% (73.7)**

The surplus ratio shows the proportion of our revenues that remains after property expenses. Our figures were slightly below our target surplus ratio of a minimum 75% due to the increase in revenue from modifications for customers relative to our total income and the lower margins on this revenue.

### **Net financial expense SEK 73 million (expense: 79)**

Net financial items include translations of foreign currency loans in the outcomes for 2017 and 2016. For 2017, these resulted in a positive exchange-rate change of SEK 45 million and, for 2016, a positive exchange-rate change of SEK 66 million. After exclusion of this effect, the net financial expense was SEK 118 million (expense: 145). Net financial items for the period were lower, primarily due to lower interest rates when renewing loans and from leveraging the low interest-rate levels for new borrowings.

### **Profit from property management, SEK 1,367 million (1,269)**

Altogether, the above resulted in a year-on-year increase in profit from property management, where the increase in rental income was the single largest reason behind the increase in net operating income.

### **Changes in value, SEK 769 million (827)**

Value changes in investment properties totalled SEK 832 million (865). Financial instruments declined in value by SEK 63 million (decrease: 38) for the period. The change in value included a negative exchange-rate change of SEK 45 million (2).

### **Tax expense, SEK 446 million (expense: 462)**

Tax comprised tax paid of SEK 157 million (expense: 142) and a deferred tax expense of SEK 289 million (expense: 320).

### **Net profit, SEK 1,719 million (1,638)**

The increase was mainly due to higher rental income.

## Consolidated balance sheet, SEK million

	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	9	25,002	22,999
Other property, plant and equipment	11	6	9
Derivatives	12, 19	54	86
Other financial investments	12	1,114	956
Other non-current receivables	13	13	10
<b>Total non-current assets</b>		<b>26,189</b>	<b>24,060</b>
<b>Current assets</b>			
Trade receivables		144	206
Derivatives	12	3	4
Other receivables	13	12	80
Prepaid expenses and accrued income	14	29	18
Cash and cash equivalents	15	465	4
<b>Total current assets</b>		<b>653</b>	<b>312</b>
<b>Total assets</b>		<b>26,842</b>	<b>24,372</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		200	200
Other contributed capital		616	616
Retained earnings, including net profit for the year		8,250	7,028
<b>Total equity</b>		<b>9,066</b>	<b>7,844</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Green bonds	16, 19	1,244	–
Non-current interest-bearing liabilities	16, 19	8,220	8,599
Derivatives		120	88
Deferred tax liabilities	10	2,990	2,701
<b>Total non-current liabilities</b>		<b>12,574</b>	<b>11,388</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	16, 19	4,317	4,262
Trade payables		148	164
Tax liability		28	23
Derivatives		27	29
Other liabilities	17	107	120
Accrued expenses and deferred income	18	575	542
<b>Total current liabilities</b>		<b>5,202</b>	<b>5,140</b>
<b>Total liabilities</b>		<b>17,776</b>	<b>16,528</b>
<b>Total equity and liabilities</b>		<b>26,842</b>	<b>24,372</b>

## Comments to the balance sheet

### Investments

Group investments in property projects totalled SEK 728 million (702) for the period.

### Acquisitions

We acquired part of the Färöarna 1 property in Kista, Stockholm, which was thereafter reregistered as Färöarna 6.

### Disposals

In Q3, we sold Malmö Centrifängelset 1 in Kirseberg and, in Q4, we divested the Skövde 5:104 and Lygnersvider 1:29 properties. All sales were conducted as property sales.

### Market valuation

The estimated values of Specialfastigheter's investment properties are determined by means of an internal valuation based on actual data in respect of rents and operating expenses. With regard to reliable rental income, the estimated cost of capital over the contract period was between 5.00% and 5.25%. Most properties are at 5.25%. The required yield ranges mostly from 5.25% to 9.70% depending on property location. The market value was mainly impacted by investments and acquisitions and amounted to SEK 25,002 million at 31 December 2017. The unrealised changes in value recognised for the period amounted to SEK 832 million (865).

### Changes in the value of investment properties Jan–Dec 2017, SEK million

Market value, 31 December 2016	22,999
+ Investments incl. capitalised interest expenses	728
+ Acquisitions	670
– Sales	-227
+ Unrealised change in value	832
<b>Market value, 31 December 2017</b>	<b>25,002</b>

<b>Unrealised changes in value</b>	<b>832</b>
of which, change in cost of capital and yield	959
of which, new and renegotiated leases	56
of which, change in the remaining term	-272
of which, other	89

### Other financial investments

Other financial investments of SEK 1,114 million (956) comprised covered bonds of SEK 1,040 million (897) and cash deposits pursuant to CSAs of SEK 74 million (59).

### Cash and cash equivalents

Consolidated cash and cash equivalents totalled SEK 465 million (4). The increase was due to advance payments of rent.

### Interest-bearing liabilities

Interest-bearing liabilities amounted to SEK 13,781 million (12,861).

## Consolidated changes in equity, SEK million

### Attributable to the Parent Company's shareholder

<b>2017</b>	<b>Share capital</b>	<b>Other contributed capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Opening balance, 1 January 2017	200	616	7,028	7,844
<b>Comprehensive income</b>				
Net profit for the year	–	–	1,719	1,719
Other comprehensive income	–	–	–	–
<b>Total</b>	<b>200</b>	<b>616</b>	<b>8,747</b>	<b>9,563</b>
<b>Transactions with the shareholder</b>				
Dividend	–	–	-497	-497
<b>Total transactions with the shareholder</b>	<b>–</b>	<b>–</b>	<b>-497</b>	<b>-497</b>
<b>Closing balance, 31 December 2017</b>	<b>200</b>	<b>616</b>	<b>8,250</b>	<b>9,066</b>

<b>2016</b>	<b>Share capital</b>	<b>Other contributed capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Opening balance, 1 January 2016	200	616	5,836	6,652
<b>Comprehensive income</b>				
Net profit for the year	–	–	1,638	1,638
Other comprehensive income	–	–	–	–
<b>Total</b>	<b>200</b>	<b>616</b>	<b>7,474</b>	<b>8,290</b>
<b>Transactions with the shareholder</b>				
Dividend	–	–	-446	-446
<b>Total transactions with the shareholder</b>	<b>–</b>	<b>–</b>	<b>-446</b>	<b>-446</b>
<b>Closing balance, 31 December 2016</b>	<b>200</b>	<b>616</b>	<b>7,028</b>	<b>7,844</b>

## Equity

### Capital management

The Board's financial objective for the Group is to maintain a sound capital structure and financial stability, to thereby retain the capital market's confidence and form the basis for continued development of business operations. The target equity/assets ratio is 25–35% and strategic planning includes adaptation to meet this target. The Board aims to preserve a balance between high returns and the advantages offered by a high level of equity. The Group's profitability target is for net profit, after including changes in value and associated deferred tax, to correspond to 8% of average equity. Profitability is a variable target whose level is adjusted depending on the composition of the property portfolio. The adjusted return on equity for 2017 was 13.2% (13.7). From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity. We have also restated these key performance indicators retroactively. Over the last five-year period, Specialfastigheter's adjusted return on equity averaged 12.6%, which well exceeds the Group's target of 8.0%. Specialfastigheter's dividend policy is to distribute 50% of net profit for the year after adding changes in value and associated deferred tax. The annual resolution on the dividend must also take into account the Group's future investment needs and financial circumstances. Over the last five years, the dividend has averaged 7.3% (7.0) of equity. The Group will pay an extraordinary dividend when the capital structure and financial needs of the business so allow. No change took place in the Group's capital management during the year. Neither the Parent Company nor any of its subsidiaries is subject to external capital requirements.

### Share capital

The share capital is divided into 2,000,000 shares with a quotient value of SEK 100 and with one (1) vote per share, which applies to both the opening and closing number of shares in the above reporting periods.

### Appropriation of profits

The Board proposes that the 2017 Annual General Meeting of Specialfastigheter Sverige AB resolve in favour of paying a dividend of SEK 560 million, or SEK 280 per share, to the owner. The proposed dividend constitutes 60.5% of the company's equity and 6.2% of the Group's equity and is in line with financial dividend target stipulations.

The company's holdings of financial instruments were measured at fair value in accordance with Chapter 4 Section 14a of the Annual Accounts Act. This entailed a decrease in equity of SEK 63 million excluding deferred tax, which represented approximately 6.8% of the Parent Company's equity excluding deferred tax. The proposed dividend to the shareholder reduces the Parent Company's equity/assets ratio from 11.6% to 8.8%, and the Group's equity/assets ratio from 33.8% to 32.4%. Group operations are run with stable, healthy profitability, and income is hedged in the long term through long lease agreements. In the Board's assessment, after distribution of the proposed dividend, the company will continue to have adequate financial capacity to meet the requirements placed on the Group's and the Parent Company's equity by the nature, scope, investment requirements and risks of the business.

The proposal is therefore justifiable given the consolidation needs, liquidity and other circumstances of the Group and Parent Company. This means, inter alia, that the proposal does not hinder the company and its subsidiaries from meeting their obligations in the short and long terms.

## Consolidated cash-flow statement, SEK million

	Full-year 2017	Full-year 2016
<b>Operating activities</b>		
Net operating income	1,495	1,409
Central administration	-55	-61
Net financial expense	-73	-79
Reversal, change in prices	-39	-4
Reversal of depreciation	3	2
Profit from sales, liquidations and acquisitions	-	3
Income tax paid	-152	-110
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,179</b>	<b>1,160</b>
<b>Change in working capital</b>		
Change in receivables	115	104
Change in other current liabilities	16	53
<b>Total change in working capital</b>	<b>131</b>	<b>157</b>
<b>Cash flow from operating activities</b>	<b>1,310</b>	<b>1,317</b>
<b>Investing activities</b>		
Acquisition of investment properties	-670	-585
Investment in investment properties	-709	-702
Disposal of investment properties	235	81
Acquisition of property, plant and equipment	0	-1
Disposal of property, plant and equipment	0	0
<b>Cash flow from investing activities</b>	<b>-1,144</b>	<b>-1,207</b>
<b>Financing activities</b>		
Investment, covered bonds	-148	-371
Borrowings	17,514	18,660
Repayments of borrowings	-16,574	-17,951
Dividend paid to Parent Company's shareholder	-497	-446
<b>Cash flow from financing activities</b>	<b>295</b>	<b>-108</b>
<b>Cash flow for the year</b>	<b>461</b>	<b>2</b>
Opening cash and cash equivalents	4	2
<b>Closing cash and cash equivalents</b>	<b>465</b>	<b>4</b>
<b>Interest</b>		
Interest received	17	14
Interest paid	108	85

### Cash flow

Group cash flow from operating activities before investments totalled SEK 1,310 million (1,317) during the period. Net investments in non-current assets amounted to a cash outflow of SEK 1,144 million (outflow: 1,207), which generated a cash flow after investments of SEK 166 million (110). A cash outflow of SEK 497 million (outflow: 446) was used for dividends, and investments in covered bonds amounted to an outflow of SEK 148 million (outflow: 371). Borrowings after repayments totalled SEK 940 million (709). The item, Investment, covered bonds, pertained solely to the investment of cash and cash equivalents and is part of long-term investments, where the company has chosen to retain liquidity instead of repaying borrowings.

## Consolidated five-year summary

### The financial progress of the Group in summary

Property related	2013	2014	2015	2016	2017
Income from property management, SEK million	1,858	1,872	1,867	1,912	2,028
Occupancy rate, %	98.8	98.3	98.7	98.6	99.0
Investments including property acquisitions, SEK million	497	371	419	1,288	1,398
Market value, investment properties, SEK million <sup>1</sup>	19,455	20,271	20,919	22,999	25,002
Floor space, sq m, thousand	1,109	1,066	1,058	1,088	1,079
Yield, %	7.6	7.3	6.8	6.5	6.2
Total assets, SEK million	19,857	20,571	22,012	24,372	26,842
Equity, SEK million	7,564	8,475	6,652	7,844	9,066
<b>Property management related</b>					
Rental income, SEK/sq m	1,574	1,600	1,618	1,644	1,700
Property operations, SEK/sq m <sup>2</sup>	285	283	288	271	300
Maintenance expenses, SEK/sq m <sup>2 and 3</sup>	182	198	207	265	266
Net operating income, SEK/sq m	1,312	1,347	1,322	1,324	1,377
Administrative expenses, SEK/sq m	56	56	62	57	50
<b>Finance related</b>					
EBT, SEK million	1,673	1,782	1,474	2,100	2,165
Net profit for the year, SEK million	1,301	1,390	1,178	1,638	1,719
Cash flow before investments, SEK million	1,041	1,119	844	1,317	1,310
Surplus ratio, %	78.0	77.6	75.0	73.7	73.7
Interest coverage ratio, cash-flow based <sup>4</sup>	4.6	5.3	6.6	8.7	11.4
Return on equity, % <sup>5</sup>	18.3	17.3	15.6	22.6	20.3
Adjusted return on equity, % <sup>5</sup>	13.6	10.8	11.8	13.7	13.2
Return on total capital, % <sup>4</sup>	10.2	10.4	8.1	10.1	9.3
Loan-to-value ratio, %	48.4	44.4	57.8	55.9	53.3
Equity/assets ratio, %	38.1	41.2	30.2	32.2	33.8
Dividend, SEK million	481	3,000 <sup>6</sup>	446	497	560

1) Investment properties under construction are recognised using the fair value method from 2013–2017.

2) For the 2013–2016 period, the cost of property managers was included in maintenance expenses. This item was moved to Property operations in 2017. We have restated the years from 2013–2016, so that the cost is included in Property operations for all years, thus enabling a fair comparison.

3) Of which capitalised: SEK 159/sq m for 2013, SEK 154/sq m for 2014, SEK 139/sq m for 2015, SEK 177/sq m for 2016 and SEK 195/sq m for 2017.

4) From 2017, we have changed the calculation of the Interest coverage ratio and Return on total capital. We have also restated these key performance indicators retroactively.

5) From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity. We have also restated these key performance indicators retroactively.

6) Which comprised a dividend of SEK 929 million and a repayment of share capital of SEK 2,071 million.

## Note 1 Group accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee (IFRIC), as adopted by the EU. Moreover, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Corporate Groups, has been applied.

The Group's eight limited companies are registered in Linköping (Sweden). The Parent Company is called Specialfastigheter Sverige AB (556537-5945). Specialfastigheter has a joint head office with offices located at the following visiting addresses: Borggården, SE-581 07 Linköping and Alströmergatan 14, SE-112 93 Stockholm. The Group's subsidiaries own and manage real property, manage construction projects, own and manage movable property and pursue related business activities. Refer also to Note 15 for the Parent Company.

### Valuation principles applied in the preparation of the Parent Company's and the Group's financial statements

Assets and liabilities are recognised at cost, other than investment properties and derivatives, which are measured at fair value.

Non-current assets held for sale are recognised at the lower of the carrying amount and the fair value less selling expenses.

### Functional currency and presentation currency

The Parent Company's functional currency is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. This means that the financial statements are presented in SEK. Specialfastigheter Sverige AB only operates on the Swedish market. All sums, unless otherwise stated, are rounded to the nearest million kronor.

### Estimations and assessments in the financial statements

Preparing the financial statements in accordance with IFRS requires the management to make estimations and assessments which influence the application of accounting policies and the recognised amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimations and assessments.

The estimations and assessments are reviewed regularly. Changes to estimates are recognised in the period in which the change occurs if the change has only affected this period, or in the period in which the change is made and future periods if the change impacts both the current and future periods.

Assessments made by the company management in applying the IFRS that have a significant effect on the financial statements and estimates made, which may result in material adjustments in subsequent years' financial statements, are described in more detail in notes 9, 16 and 19 to the consolidated financial statements.

### Accounting policies applied

The accounting policies specified below, with exceptions described in more detail, have been consistently applied to all periods presented in the consolidated financial statements. The Group's accounting policies have been consistently applied in the reporting and consolidation of the Parent Company and subsidiaries.

### Changes in accounting policies

New standards and interpretations that entered force in 2017 have not had any impact on the financial statements other than certain supplementary disclosures.

### Amendments to the IFRS and interpretations not yet adopted

IFRIC has not been applied in advance.

Standards	To be applied from the financial year starting:
<b>IFRS 9 Financial Instruments</b>	<b>1 January 2018</b>
<i>IFRS 9 is a new standard that replaces IAS 39. The standard entails changes in the classification and measurement of financial assets, where classification under IFRS 9 is made based on characteristics inherent in the instruments and the business model applied for financial instruments. Hedge accounting methods are changed to better reflect the company's risk management activities. Specialfastigheter does not apply hedge accounting. The principles for impairment losses have been revised and require more timely recognition by companies of any losses. The impairment model in IFRS 9 is based on expected losses. The recommendation requires, inter alia, Specialfastigheter to assess its expected credit losses. Since the majority of Specialfastigheter's customers are from the public sector, with strong payment capacity and low credit risk, Specialfastigheter does not expect the standard to have any material impact on its financial statements.</i>	
<b>IFRS 15 Revenue from Contracts with Customers</b>	<b>1 January 2018</b>
<i>IFRS 15 replaces all previously issued standards and interpretations that address revenue with one single model for revenue recognition. IFRS 15 addresses revenue recognition from contracts and is general in nature. The standard is based on the principle that revenue should be recognised on the transfer of promised goods or services to the customer, that is when the customer obtains control of that good or service, which may occur over time or at a point in time. Revenue should comprise the consideration that the company expects to receive for the delivered goods or services. The standard requires separation of premises rental and service. Specialfastigheter Sverige AB has also reviewed the Group's total income and the existing leases to enabling mapping of the effects of IFRS 15. This review noted that no part is encompassed by IFRS 15. Remuneration for the company's undertakings pursuant to leases, such as supplying premises with heating, cooling, snow clearance and garbage collection, for example, are included in the rent. Tenants cannot influence the choice of supplier or frequency, or have any other impact on the supplier, in the properties owned by the company. Moreover, some of these undertakings fall under a general responsibility for the property. Accordingly, leases only comprise rental payments, which are not encompassed by IFRS 15 and instead come under IAS 17, and from 2019, IFRS 16. Accordingly, the introduction of the standard will not have any material impact on the financial statements.</i>	
<b>IFRS 16 Leases</b>	<b>1 January 2019</b>
<i>IFRS 16 replaces IAS 17 Leases and associated interpretations. The standard requires lessees to recognise assets and liabilities attributable to all leases with the exception of leases that are shorter than 12 months and/or pertain to small amounts. Specialfastigheter's leases are primarily defined as leases in accordance with IFRS 16. As a lessor, the company's accounting will remain unchanged in all significant respects. The company will report leased service vehicles and company cars as a lessee in accordance with IFRS 16. Specialfastigheter's assessment is that the new standard will entail substantial disclosure requirements but, otherwise, will have limited impact on the financial statements. Under the new standard, most leased assets will be recognised in the balance sheet and the lessee must separate costs for interest payments and depreciation on the asset. The new standard entails no major differences for lessors. For Specialfastigheter, the standard will mainly impact the recognition of leasehold agreements, leased vehicles and rent for the premises we utilise. These are to be recognised in the balance sheet and thus increase total assets. Moreover, ground rents will be recognised as depreciation of usufructs and as an interest expense, and accordingly will no longer be included in net operating income. Since Specialfastigheter only has a limited number of leasehold properties, leased vehicles and rented premises, the impact on the financial statements is assessed as limited.</i>	
<b>Classifications etc.</b>	
Non-current assets and non-current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid after more than twelve months from the balance-sheet date. Current assets and current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid within twelve months of the balance-sheet date.	
<b>Consolidation principles</b>	
<b>Subsidiaries</b>	
Subsidiaries are companies that are subject to control by the Parent Company Specialfastigheter Sverige AB. Control means the direct or indirect right to design a company's financial and operational strategies in order to obtain economic benefits. In assessing whether control exists, potential voting rights that are currently exercisable or convertible are taken into account.	
Subsidiaries are reported in accordance with the acquisition method. Under this method, an acquisition is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The cost to the Group is determined through an acquisition analysis at the time of the acquisition. In this analysis, the cost of the business combination is established, as are the fair values on the acquisition date of acquired identi-	

fiable assets as well as assumed liabilities and contingent liabilities. The cost of the subsidiary's shares consist of the fair values at the acquisition date for the assets acquired, assumed or acquired liabilities, and transaction costs directly attributable to the acquisition. Transaction costs are expensed in the Group. Consolidations of subsidiaries' financial statements are entered in the consolidated financial statements from the date of the acquisition until the date when controlling influence ceases.

#### Transactions eliminated on consolidation

Intra-Group receivables and liabilities, income or expenses, and unrealised gains or losses arising from intra-Group transactions are eliminated in the preparation of the consolidated financial statements.

#### Income

##### Revenue recognition

The Group's recognised income pertains mainly to rental income. Advance invoices generate rental income and car-parking income, which are therefore allocated to periods so that only the rent for the respective period is recognised as income. Revenue is usually recognised on a straight-line basis over the term of the lease, apart from in exceptional cases where a different method better reflects how financial benefits accrue to the Group. Interest income is recognised as revenue spread over the term by the application of the effective-interest method. Dividend income is recognised when the right to receive payment has been established.

##### Income from property sales

Income from property sales is normally recognised on the contract date unless the risks and benefits were transferred to the purchaser on an earlier occasion. Control of the asset may have been transferred prior to the occupancy date and, if so, the property sale is recognised as income at this earlier date. Agreements between the parties with respect to the risks, benefits and involvement in day-to-day administration are taken into account when estimating the timing of revenue recognition. Moreover, any circumstances that may affect the outcome of the transaction and which are beyond the control of the seller and/or purchaser are also taken into consideration.

#### Operating expenses and financial income and expenses

##### Operating leases

Expenses in respect of operating leases are recognised in profit or loss on a straight-line basis over the lease term. Benefits obtained in connection with the signing of a lease are recognised in profit or loss as a decrease in lease charges on a straight-line basis over the period of the lease. Variable charges are expensed in the periods in which they arise.

##### Financial income and expenses

Financial income and expenses comprise interest income from bank funds, investments, receivables, interest expense on loans, translation of currency loans and unrealised and realised gains and losses on derivatives used in financial operations.

Interest income on receivables and interest expenses on liabilities are calculated using the effective-interest method. Effective interest is the rate of interest which makes the current value of all estimated future inflows and outflows during the expected fixed-interest period equal to the carrying amount of the asset or liability. Interest income from purchased covered bonds is recognised in the period during which interest is paid.

Interest income and interest expenses include accrued amounts for transaction expenses and differences between the initial recognised value of the receivable or liability and the amount settled on maturity.

Borrowing costs are charged against earnings in the period to which they relate except to the extent that they are included in the cost of an asset. An asset for which interest can be included in the cost is, by necessity, an asset that takes significant time to complete for its intended use or sale.

#### Taxes

Income taxes comprise current tax and deferred tax. Current tax is tax to be paid or received for the current year, with the application of the tax rates that are adopted or established in practice as of the balance-sheet date, which also includes adjustment of current tax attributable to previous periods. Income tax is recognised in profit or loss except when the underlying transaction is recognised directly in equity and where the associated tax effect is recognised in equity. Deferred tax is calculated using the balance-sheet method based on temporary differences between the carrying amounts and fiscal values of assets and liabilities. The IFRS 3 rule on the classification of acquisitions as business combinations or asset acquisitions is based on making a separate assessment for each individual transaction. On the acquisition of a business, the method of accounting to be used for the acquisition is assessed using the following criteria: the presence of employees and the complexity of internal processes. Moreover, the assessment also takes into consideration the number of operations and the existence of agreements with various degrees of complexity. High fulfilment of these criteria results in classification of the acquisition as a business combination and low fulfilment in classification as an asset acquisition. Temporary differences in assets and liabilities that, at the transaction date, do not affect recognised or taxable profit are not recognised for asset acquisitions. All companies acquired in 2017 have been classified as asset acquisitions. Those properties that are acquired as company transactions are assessed as clear asset acquisitions. Furthermore, temporary differences attributable to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account. When acquisitions of subsidiaries entail the acquisition of non-business combination assets, the cost of these assets and liabilities is allocated according to their relative fair values at the acquisition date. The valuation of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realised or settled.

Deferred tax is calculated in accordance with the tax rates and tax rules that were adopted or established in practice as of the balance-sheet date. Deferred tax assets concerning deductible temporary differences are only recognised to the extent that it is likely that these will be used. The value of deferred tax assets is reduced when it is no longer considered likely that they can be used.

Other disclosures pertaining to deferred tax are available in Note 10 to the consolidated financial statements.

#### Investment properties

Investment properties are properties held with the objective of generating rental income and/or value growth. Investment properties are initially recognised at cost, which includes all expenses directly attributable to the acquisition. Investment properties are recognised on the balance sheet at fair value. For further information, see Note 10 to the consolidated financial statements.

#### Property, plant and equipment

Property, plant and equipment are recognised in the consolidated financial statements at cost less accumulated depreciation. Cost includes the purchase price and expenses directly attributable to an asset in order to bring it to the location and condition necessary for it to be utilised in line with the aim of the acquisition.

The recognised value of property, plant and equipment is removed from the balance sheet on the asset's disposal or sale, or when no future economic benefits are expected from the use, disposal or sale of the asset. Profit or loss that arises on the sale or disposal of an asset comprises the difference between the sale price and the recognised value of the asset less direct selling expenses. Profit and loss are recognised under other operating income/expense.

#### Leased assets

Leases are classified in the consolidated financial statements as either financial or operating leases. A financial lease exists when the economic risks and benefits associated with ownership have substantially been transferred to the lessee; otherwise it is classified as an operating lease. Specialfastigheter Sverige AB has classified all lease agreements as operating leases. Charges for operating leases are expensed over the term of the leases based on their utilization, which may differ from what has de facto been paid in lease charges during the year.

### Depreciation principles

Depreciation is calculated on a straight-line basis over an asset's estimated useful life.

### Estimated useful lives, plant and equipment

The depreciation methods applied and the assets' residual values and useful lives are reviewed at the end of each year.

### Impairment losses

The recognised amounts of Group assets are reviewed at each balance-sheet date to assess whether any indication exists of an impairment loss. IAS 36 is applied for testing the need for impairment for assets other than financial assets (which are tested in accordance with IAS 39), assets held for sale, disposal groups recognised in accordance with IFRS 5, investment properties recognised at fair value in accordance with IAS 40 and deferred tax assets. For assets excepted under the above, fair values are tested in accordance with the standard concerned.

### Impairment testing of property, plant and equipment

When an impairment loss is indicated, the asset's recoverable amount is calculated in accordance with IAS 36 (see below). If an essentially independent cash flow cannot be established for an individual asset, assets are grouped at the lowest level possible for identification of an essentially independent cash flow (a cash-generating unit) for the assessment of any impairment need. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit (CGU) exceeds the recoverable amount. Impairment losses are recognised in profit or loss. Impairment of assets attributable to a CGU is allocated in the first instance to goodwill. Proportional impairments are then made of other assets included in the CGU.

The recoverable amount is the higher of fair value less selling expenses and value in use. When calculating value in use, future cash flows are discounted by a factor that takes into account the risk-free interest rate and the risk associated with the specific asset.

### Impairment testing of financial assets

On each reporting date, the company assesses whether any objective evidence exists of a financial asset or Group of assets needing impairment. Objective evidence consists of observable circumstances that have occurred and that have a negative impact on the possibility of recovering the cost. The recoverable amount for assets belonging to the categories of loans receivable and trade receivables which are recognised at accrued cost is calculated as the current value of future cash flows discounted by the effective interest rate applicable on initial recognition of the asset. Assets with a short maturity are not discounted. Impairment losses are recognised in profit or loss.

### Reversal of impairments

An impairment is reversed if there is both an indication that the impairment loss no longer exists and if a change has taken place in the assumptions on which the calculation of the recoverable amount was based. However, impairment of goodwill is never reversed. A reversal is only made to the extent that the recognised value of the asset after reversal does not exceed the carrying amount that would have been recognised, less amortisation or depreciation where applicable, had no impairment been made.

Impairment of loans receivable and trade receivables recognised at accrued cost is reversed if a later increase in the recoverable amount can be objectively attributed to an event that has occurred after the impairment was carried out.

### Financial instruments

Financial instruments that are recognised in the balance sheet include, on the assets side, loan receivables, financial investments, derivatives, trade receivables and cash and cash equivalents. The liabilities side contains loan liabilities, derivatives and trade payables.

### Recognition and derecognition in the balance sheet

A financial asset or liability is recognised in the balance sheet when the company becomes party to the instrument's contractual conditions. Trade receivables are recognised in the balance sheet when the invoice is sent.

Liability is recognised when the counterparty has performed and a contractual obligation to pay exists, even if the invoice has not yet been received. Trade payables are recognised at the time an invoice is received.

A financial asset is removed from the balance sheet when the rights inherent in the agreement are realised or expire or if the company loses control over them. The same is valid for part of a financial asset. A financial liability is derecognised from the balance sheet when the obligation in the agreement is fulfilled or in any other way extinguished. The same is valid for part of a financial liability.

### Classification and valuation

Financial instruments that are not derivatives are initially recognised at cost, which corresponds with the fair value of the instrument plus transaction expenses. This applies for all financial instruments except those that belong to the financial asset category and which are recognised at fair value in profit or loss – these assets are recognised at fair value excluding transaction expenses. A financial instrument is classified on initial recognition on the basis of the purpose for which the instrument was acquired. The classification determines how the financial instrument is measured after initial recognition, as described below.

Investments in the form of purchased covered bonds are initially recognised at a cost equivalent to the instrument's fair value.

Derivative instruments are initially recognised at fair value, which means that transaction expenses are charged against earnings for the period. After initial recognition, derivatives are recognised as described below. Increases and decreases in value are recognised under the item Change in value of financial instruments, unrealised. When using interest-rate swaps, the interest coupon is recognised as other financial income or other financial expense. Cash and cash equivalents consist of cash and immediately available bank balances.

### Financial assets measured at fair value through profit or loss

Financial instruments in this category are measured continuously at fair value with changes in value recognised in profit or loss. These include derivatives with a positive fair value. Derivatives are included in the sub category termed held for trading.

Covered bonds are measured at fair value at the price quoted on the balance-sheet date, while increases and decreases in value are recognised as revenues and expenses under net financial items. Covered bonds are included in the sub category termed held for trading.

### Loan receivables and trade receivables

Loan receivables and trade receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. These assets are valued at accrued cost. Accrued cost is determined on the basis of the effective-interest rate calculated at the acquisition date. Trade receivables are recognised in the amount expected to be received, that is after deductions for bad debts.

### Financial liabilities measured at fair value through profit or loss

This category includes the Group's financial derivatives with negative fair values. Changes in fair value are recognised in profit or loss. Derivatives are included in the sub category termed held for trading.

## Other financial liabilities

### Loan financing

All loan financing is initially recognised at cost, net after transaction expenses. Borrowing is then recognised at accrued cost and any difference between the amount received and the repayment amount is recognised in net financial items over the loan term by application of the effective-interest method. Borrowing in foreign currency is translated to SEK at the balance-sheet date exchange rate and the effects recognised in net financial items.

The Group applies IAS 23 Borrowing Costs. IAS 23 means that the Group capitalises interest expenses attributable to investment properties under construction. Capitalised interest expenses impact net financial items positively and changes in market value negatively by a corresponding amount. Interest expenses are capitalised monthly at an interest rate equivalent to the average six-month Stibor plus a surcharge.

### Other financial liabilities

Other financial liabilities, including trade payables, which are measured at accrued cost.

### Cash and cash equivalents

Cash and cash equivalents comprise bank balances. The assets are judged to be negotiable immediately with negligible risk of changes in value, which means that the carrying amount is equivalent to the fair value.

### Derivatives

The Group's derivative instruments were acquired to hedge the interest-rate and currency risks to which the Group is exposed. Derivatives are initially recognised at cost on the transaction date, which means that transaction expenses are charged against earnings for the period. After the initial recognition, derivatives are measured at fair value and changes in value are recognised as described below. Hedge accounting is not applied by the Group.

#### Derivatives measured at fair value

Interest-rate derivatives comprise a financial asset or liability measured at fair value with changes in value recognised in profit or loss. Using interest-rate derivatives may give rise to changes in value due to changes in the market interest rate and the time factor. Interest-rate derivatives are initially recognised at cost in the balance sheet, and are subsequently measured at fair value together with changes in value in profit or loss.

Exchange rates are hedged with the aid of currency derivatives (currency swaps combined with interest-rate swaps). Derivatives are measured at fair value on the balance-sheet date exchange rate and interest rate and meet the currency effects from the translation of the loans at the balance-sheet date exchange rate.

Closing-date market prices and generally accepted calculation methods are used to determine the fair value of interest-rate and currency derivatives, which means that fair value is established according to levels 1 and 2. Currency translation to Swedish kronor is conducted at listed exchange rates on the closing date. Interest-rate swaps are measured by discounting future cash flows to their present value. When financing in foreign currency, all future payment flows are hedged so that no currency risk remains.

Derivative instruments are used to hedge forecast electricity expenses and the derivatives are recognised at fair value in profit or loss. The fair value of electricity derivatives is based on balance-sheet date market values, according to Level 1, as provided by electricity suppliers that purchase electricity derivatives from Nord Pool. Electricity derivatives are raised to hedge electricity prices. Specialfastigheter passes on the major part of electricity expenses by invoicing tenants.

## Remuneration to employees

### Pension plans

All personnel are employed in the Parent Company. The pension plans principally comprise retirement pensions, disability pensions and family pensions in the form of alternative ITPs (Supplementary Pensions for Salaried Employees). Retirement pension commitments for salaried employees are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this comprises a multi-employer defined-benefit plan. Since the company has not had access to information which would have made it possible to report the pension plan as a defined-benefit plan, it has also been reported as a defined-contribution plan. Commitments regarding contributions to defined-contribution plans are recognised as expenses in profit or loss as they arise.

### Short-term employee benefits

Short-term employee benefits are calculated on an undiscounted basis and recognised as an expense when the related services are received.

### Contingent liabilities

A contingent liability is recognised when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence of one or more uncertain future events or when there is an obligation that is not recognised as a liability or provision because it is not likely that an outflow of resources will be required.

### Cash-flow statement

The cash-flow statement was prepared using the indirect method. The recognised cash flow includes only those transactions that entail inflows and outflows. Balances at banks are classified as cash and cash equivalents.

### Rounding

Amounts in this annual report are expressed in SEK million without decimal places. Where amounts are less than SEK 1 million and rounded down, this is represented by a zero (0). In cases where the outcome is actually zero, this is represented by a dash.

**Note 2** Other income

	2017	2016
Invoiced energy and fuel expenses	72	54
Invoiced services	103	94
Compensation received	7	13
Other	0	0
<b>Total</b>	<b>182</b>	<b>161</b>

**Note 3** Property expenses

	2017	2016
Energy, fuel and water	143	131
Property operations	272	238
Property tax	41	39
Maintenance	77	95
<b>Total</b>	<b>533</b>	<b>503</b>

**Note 4** Administration

	2017	2016
Payroll expenses	42	48
Depreciation of plant and equipment	3	3
Other expenses (Inspections, consultants' fees, other)	10	10
<b>Total</b>	<b>55</b>	<b>61</b>

Refer to Note 7 to the consolidated financial statements, to see the total payroll expenses. Unallocated administrative expenses are reported in this note.

**Note 5** Auditors' fees, SEK thousand

	2017	2016
<b>Ernst &amp; Young</b>		
Audit assignment	571	561
Audit activities other than the audit assignment	72	28
Tax advice	44	146
Other services	45	98
<b>Total</b>	<b>732</b>	<b>833</b>

The audit assignment refers to the examination of the annual report, the accounting records and the administration by the Board and CEO. This also includes a fee for audit advice provided in connection with the audit assignment. Audit activities refers to the examination of the administration or of financial information arising from statutes, the Articles of Association, regulations or agreements that result in a report or other document also intended to form the basis for an assessment by persons other than the principal as well as advice or other assistance brought about by observations during the review assignment. Other services include advice that is not attributable to any of the above types of service and which do not concern taxes. The auditors Ernst & Young AB were elected at the 2014, 2015, 2016 and 2017 AGMs.

**Note 6** Financial income and expenses

	SEK million		%	
<b>Composition of net financial items</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest expense, loans	99	111	0.86	0.86
Exchange-rate changes on foreign loans	-45	-66	-0.39	-0.51
Net interest income, derivatives	9	39	0.08	0.30
Gains/losses on investments	12	-4	0.10	-0.03
Other interest income and expenses	-17	-14	-0.15	-0.11
<b>Operating net financial items</b>	<b>58</b>	<b>66</b>	<b>0.50</b>	<b>0.51</b>
Other financial expenses	16	14	0.15	0.11
Capitalised interest expense, projects	-1	-1	-0.01	-0.01
<b>Recognised net financial items</b>	<b>73</b>	<b>79</b>	<b>0.64</b>	<b>0.61</b>
Change in value of financial derivatives	63	38	0.54	0.29
<b>Total net financial items</b>	<b>136</b>	<b>117</b>	<b>1.18</b>	<b>0.90</b>

During the year SEK 1 million (1) in interest was capitalised in respect of investments in buildings under construction. Interest equivalent to six months' Stibor plus a surcharge was used when capitalising.

**Net financial items recognised according to category and class**

<b>Financial income</b>	2017	2016
Interest income from financial assets not measured at fair value	0	1
Interest income from financial assets measured at fair value	17	14
Exchange-rate changes on foreign loans	45	66
Gains/losses on investments	2	4
<b>Total financial income</b>	<b>64</b>	<b>85</b>

**Financial expenses**

Interest expenses on financial liabilities not measured at fair value	-99	-111
Interest expenses on financial liabilities measured at fair value	-9	-39
Gains/losses on investments	-13	-
Other financial expenses	-16	-14
<b>Total financial expenses</b>	<b>-137</b>	<b>-164</b>
<b>Total recognised net financial items</b>	<b>-73</b>	<b>-79</b>

**Change in value of financial derivatives recognised by category and classification**

Changes in value on financial assets		
Derivatives measured at fair value	8	47
Changes in value on financial liabilities		
Derivatives measured at fair value	-71	-85
<b>Change in value of financial derivatives</b>	<b>-63</b>	<b>-38</b>

**Note 7** Employees, payroll expenses and Board fees, SEK thousand

<b>Parent Company total</b>			<b>Pension expenses</b>		
	2017	2016		2017	2016
Number of employees	144	131	Chairman of the Board	–	–
Of whom women	29.17%	29.77%	Other Board members	–	–
Of whom men	70.83%	70.23%	<b>Total</b>	<b>–</b>	<b>–</b>
<i>The subsidiaries have no employees.</i>					
<b>Parent Company including the Board and senior executives</b>			<b>Senior executives</b>		
	2017	2016		2017	2016
Salaries and other remuneration	76,724	72,588	<b>Salaries and other remuneration</b>		
Social security expenses*	39,145	36,731	Chief Executive Officer	2,354	2,164
*Of which, pension expenses	12,148	11,180	Other senior executives	7,409	7,049
			<b>Total</b>	<b>9,763</b>	<b>9,213</b>
<b>Board of Directors</b>			<b>Pension expenses</b>		
	2017	2016		2017	2016
<b>Salaries and other remuneration</b>			Chief Executive Officer	723	645
Chairman of the Board	258	258	Other senior executives	2,305	2,075
Other Board members	720	719	<b>Total</b>	<b>3,028</b>	<b>2,720</b>
<b>Total</b>	<b>978</b>	<b>977</b>			

**Specification of remuneration to Board members<sup>1</sup>**

	2017		2016	
	Salaries and other remuneration	Other benefits	Salaries and other remuneration	Other benefits
Bo Lundgren	258	–	258	–
Jan Berg	150	–	150	–
Carin Götblad	130	–	128	–
Eva Landén	160	–	158	–
Nina Linander <sup>2</sup>	–	–	40	–
Mikael Lundström	130	–	130	–
Ulrika Nordström	–	–	–	–
Erik Tranaeus <sup>3</sup>	–	–	–	–
Maj-Charlotte Wallin	150	–	113	–
<b>Total</b>	<b>978</b>	<b>–</b>	<b>977</b>	<b>–</b>

1) The 2017 AGM resolved that annual Board fees would be payable in an amount of SEK 250,000 to the Chairman of the Board and SEK 120,000 each to other Board members. In addition to the ordinary Board fees, a fee of SEK 30,000 per year was paid to each member of the Audit and Finance Committee and SEK 10,000 per year to each member of the Remuneration Committee. A fee of SEK 40,000 per year was paid to the Chairman of the Audit and Finance Committee and SEK 10,000 per year to the Chairman of the Remuneration Committee. Fees are only paid to members elected by the AGM, not employees of Specialfastigheter or the Government Offices of Sweden. No remuneration over and above that decided by the AGM has been paid to the Chairman of the Board or any Board member. Board fees have been paid as salary, but in two cases were invoiced within the framework of the operations conducted in the Board members' companies. When an assignment is carried out within a Board member's company, fees to members of the Board and committees are paid with an additional amount equivalent to the social-security expenses that Specialfastigheter is otherwise not obliged to pay. Invoicing for Board and committee fees should be cost neutral for Specialfastigheter.

2) Stepped down in conjunction with the 2016 AGM.

3) Co-opted during Ulrika Nordström's maternity leave.

## continued, Note 7 Employees, payroll expenses and Board fees, SEK thousand

### Specification of remuneration to senior executives<sup>4</sup>

	Salaries and other remuneration		Other benefits <sup>5</sup>		Pension expenses <sup>6</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
CEO, Åsa Hedenberg	2,354	2,164	49	56	723	645	3,126	2,865
Business Director Sweden, Torbjörn Blücher	1,184	1,161	59	59	357	365	1,600	1,585
CFO, Kristina Ferenius	1,299	1,270	59	58	428	318	1,786	1,646
Projects and Development Director, Göran Cumlin	1,193	1,117	46	47	382	368	1,621	1,532
Director of Operations Support, Henrik Nyström	908	850	35	22	293	241	1,236	1,113
Property Management Director, Åsa Welander	1,039	971	52	54	277	238	1,368	1,263
HR Director, Christina Burlin	1,017	950	0	0	363	343	1,380	1,293
Communication Director, Hanna Janson	769	730	0	2	205	202	974	934
<b>Total</b>	<b>9,763</b>	<b>9,213</b>	<b>300</b>	<b>298</b>	<b>3,028</b>	<b>2,720</b>	<b>13,091</b>	<b>12,231</b>

4) There are no individual management contracts or terms relating to severance payments for any senior executives other than the CEO. Notice periods mainly follow collective agreements. There are some individual contracts with mutual 3- or 6-month notice periods. Pensions follow an ITP plan with a retirement age of 65.

5) Company car, subsidised meals and other benefits such as healthcare insurance.

6) Any voluntary salary sacrifice arrangement is included in the total.

#### Total for the Parent Company including the Board and senior executives

The Board, including alternates, comprises 11 (11) members; of whom five (five) are women and six (six) are men. Seven members are elected at the AGM and four members are appointed by employee organisations. From June 2017, a co-opted Board member stood in for a Board member on maternity leave. The executive management team, which includes the CEO, is made up of eight (eight) individuals; of whom five are women and three are men. No variable remuneration or agreements on financial instruments apply for senior executives. Retirement pension and family pension commitments for salaried employees in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this comprises a multi-employer defined-benefit plan. For the 2017 financial year, the company did not have access to information that would have enabled it to recognise this plan as a defined-benefit plan. Accordingly, the ITP pension plan secured via insurance with Alecta was recognised as a defined-contribution plan. Fees for the year for pension insurance policies provided by Alecta were approximately SEK 5 million (4). Alecta's surplus may be distributed to the policy owners and/or the insured. At year-end 2017, Alecta's surpluses in the form of the collective consolidation level was 154% (149). The collective consolidation level is the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial commitments, which do not correspond with IAS 19.

### Sick leave, % of total working hours

	2017		2016	
	Sick leave/ Reg. hours, %	Long-term sick leave/Total sick leave, %	Sick leave/ Reg. hours, %	Long-term sick leave/Total sick leave, %
Women	1.05	0.00	2.14	68.13
Men	3.44	59.92	2.78	51.08
Employees under 30	*	*	*	*
Employees aged 30–49	2.52	39.19	0.92	0.00
Employees over 49	3.03	66.69	4.26	70.56
All employees	2.73	59.92	2.60	55.17

\*) No data is provided as the group is less than 10 people.

### Note 8 Realised gain/loss on property sales

	2017	2016
Proceeds, properties sold	112	78
Fair value, properties sold	-82	-72
Selling expenses	-1	-2
<b>Total</b>	<b>29</b>	<b>4</b>

## Note 9 Investment properties

### Investment properties are recognised using the fair value method (IAS 40)

2017	Acquisition (+)/Disposals (-) properties	Properties owned for the full year	Total 2017
Opening fair value	–	22,999	22,999
Investments regarding post-acquisition expenditure	–	727	727
Capitalised interest expenses	–	1	1
Acquisitions (+)	670	–	670
Divestments (-)	-227	–	-227
Unrealised changes in value	–	832	832
<b>Closing fair value</b>	<b>443</b>	<b>24,559</b>	<b>25,002</b>

2016	Acquisition (+)/Disposals (-) properties	Properties owned for the full year	Total 2016
Opening fair value	–	20,919	20,919
Investments regarding post-acquisition expenditure	–	701	701
Capitalised interest expenses	–	1	1
Acquisitions (+)	585	–	585
Divestments (-)	-72	–	-72
Unrealised changes in value	–	865	865
<b>Closing fair value</b>	<b>513</b>	<b>22,486</b>	<b>22,999</b>

Tax assessment value	2017	2016	Fiscal residual values	2017	2016
Buildings	3,077	2,920	Buildings	7,745	7,447
Land	1,007	972	Land	1,480	1,498
<b>Total</b>	<b>4,084</b>	<b>3,892</b>	<b>Total</b>	<b>9,225</b>	<b>8,945</b>

### Investment properties

Investment properties are properties held with the objective of generating rental income and/or value growth. Investment properties are initially recognised at cost, which includes all expenses directly attributable to the acquisition. Investment properties are recognised on the balance sheet at fair value. Fair value is based principally on valuations carried out by company personnel. Valuations are cross-checked against valuations carried out by independent, external appraisers with recognised qualifications and appropriate skills for valuing properties of the types and locations in question. External valuations take place every six months according to a rolling schedule.

If there are indications during the current year of substantial value changes for individual properties, parts of the property holdings, or the entire property holdings, the properties concerned are revalued in conjunction with quarterly reporting. Fair value is based on the market value, which is the estimated amount that would be obtained in a transaction at the valuation date between knowledgeable, independent parties who have an interest in the transaction being carried out after customary marketing in which both parties are assumed to have acted with insight, common sense and without coercion. Both unrealised and realised changes in value are recognised in profit or loss. Rental income and income from property sales are recognised in line with the principles described in the Revenue recognition section; see Note 1 to the consolidated financial statements.

### Subsequent expenditures – Investment properties recognised using the fair-value method

Subsequent expenditures that entail a future financial advantage for the company, that is, which are value enhancing and can be calculated in a reliable manner, are capitalised as assets. Other expenditures, repairs and maintenance are expensed during the period in which they arise.

As of 2013, IFRS 13 applies whereby the valuation of a property holding is categorised according to one of three levels. There are different degrees of uncertainty in the valuation depending on the level used. Specialfastigheter uses Level 3, where the degree of uncertainty is greatest as there is insufficient transaction/market data to allow using another level.

Level 1	Prices quoted in active markets
Level 2	Observable data other than data in Level 1
Level 3	Unobservable data

### Valuation method

The estimated values of Specialfastigheter's investment properties are determined by means of an internal valuation based on actual data in respect of rents and operating expenses. In order to assure the quality of the internal evaluation, it is cross-checked against an external evaluation of 48 (49) objects, equivalent to 87% (82) of the total value.

External valuations take place according to a rolling schedule. The difference between the external and internal evaluations amounts to less than 3% (3). Specialfastigheter applies a value below that obtained from the external valuations. The market's required yield is used principally when calculating residual values, that is the property's estimated market value at the end of the calculation period.

The calculations are performed on a nominal basis using inflation of 2.0% (1.5) for the first year and 2.0% (2.0) per year for the remaining years in the calculation. The valuation properties generally have relatively long rental agreements with tenants who are considered to be reliable payers. Therefore, it is appropriate to use a differentiated cost of capital for net operating income and residual value in connection with the calculation of yield value. With regard to reliable rental income, the estimated cost of capital over the contract period was mainly between 5.00% and 5.25%. The cost of capital in 2016 was between 5.25% and 5.60%. The required yield ranges mostly from 5.25% to 9.70% depending on property location. The required yield in 2016 was between 5.60% and 10.00%. The average yield was 6.16% (6.65). We note continued substantial market interest in our type of properties, known as public sector properties.

The operations and maintenance expense levels used in the cash-flow statements are derived from normalised values based on current maintenance plans. Current rental terms have been used as the basis in the cash-flow statements. The values take into account the best and maximum use of the properties.

**continued, Note 9** Investment properties

Estimated market rents have been applied in the cash-flow statements from the moment when the current rental period expires. We obtained current market yield requirements and costs of capital from an external appraiser for use as supporting data in valuation calculations. The appraiser has carried out various investigations and analyses regarding the property category concerned. This included examining various property transactions completed.

Rental income for the year totalled SEK 1,846 million (1,751). Future rents attributable to non-terminable operational leases mature as shown below.

<b>Maturity Profile, SEK million</b>	<b>2017</b>	<b>2016</b>
Within 1 year		
Properties	56	56
Housing	3	3
Between 1 and 5 years		
Properties	457	312
Beyond 5 years		
Properties	1,495	1,483
<b>Total</b>	<b>2,011</b>	<b>1,854</b>

**Note 10** Taxes

<b>Recognised in profit or loss</b>	<b>2017</b>	<b>2016</b>
Current tax	157	142
Deferred tax expense	289	320
<b>Total recognised consolidated tax expense</b>	<b>446</b>	<b>462</b>

**Reconciliation of effective tax**

Recognised EBT	2,165	2,100
Swedish income tax rate, 22%	476	462
Tax-exempt income	0	0
Non-deductible expenses	1	0
Adjusted sale proceeds	-32	0
Standard interest tax allocation reserve	1	0
Loss carryforwards	-	0
<b>Total</b>	<b>446</b>	<b>462</b>

**Recognised in the balance sheet**

Deferred tax liability	2,990	2,701
Current tax	28	23
<b>Total</b>	<b>3,018</b>	<b>2,724</b>

**Deferred tax assets and liabilities**

Investment properties	-2,681	-2,401
Financial assets	21	6
Tax allocation reserve	-244	-214
Accelerated depreciation	-86	-92
<b>Total</b>	<b>-2,990</b>	<b>-2,701</b>

No deferred tax has been recognised in equity.

**Note 11** Other property plant and equipment

<b>Plant and equipment</b>	<b>2017</b>	<b>2016</b>
Opening cost	25	21
Purchases	0	4
Sales and disposals	0	0
<b>Closing accumulated cost</b>	<b>25</b>	<b>25</b>
Opening depreciation	16	13
Sales and disposals	0	0
Depreciation for the year	3	3
<b>Closing accumulated depreciation</b>	<b>19</b>	<b>16</b>
<b>Closing residual value according to plan</b>	<b>6</b>	<b>9</b>

**Note 12** Financial investments

<b>Derivatives</b>	<b>2017</b>	<b>2016</b>
<b>Non-current investments</b>		
Interest-rate and currency derivatives measured at FVTPL	49	83
Electricity derivatives measured at FVTPL	5	3
<b>Total</b>	<b>54</b>	<b>86</b>

**Current investments**

Interest-rate and currency derivatives measured at FVTPL	0	0
Electricity derivatives measured at FVTPL	3	4
<b>Total</b>	<b>3</b>	<b>4</b>

**Other financial investments**

<b>Non-current investments</b>	<b>2017</b>	<b>2016</b>
CSA deposits	74	59
Covered bonds	1,040	897
Other shares and participations	0	0
<b>Total</b>	<b>1,114</b>	<b>956</b>

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. As of 31 December 2017, the Group had lodged collateral totalling SEK 74 million (59). One deposit of SEK 33 million regarding Nordea and one deposit of SEK 41 million for Nomura. Collateral was lodged in the form of eight (seven) covered bonds. As of 31 December 2017, the collateral amounted to SEK 1,040 million (897).

## Note 13 Other receivables

	2017	2016
<b>Non-current receivables</b>		
Value-added tax for adjustment	13	10
<b>Total</b>	<b>13</b>	<b>10</b>
<b>Current receivables</b>		
Receivables, properties sold	–	68
Opening suspended VAT	12	6
Other receivables	0	6
<b>Total</b>	<b>12</b>	<b>80</b>

## Note 14 Prepaid expenses and accrued income

	2017	2016
Prepaid energy expenses	4	4
Other interim receivables	25	14
<b>Total</b>	<b>29</b>	<b>18</b>

## Note 15 Cash and cash equivalents

	2017	2016
Bank balances	465	4
<b>Total</b>	<b>465</b>	<b>4</b>

## Note 16 Interest-bearing liabilities

	2017	2016
<b>Non-current liabilities</b>		
Loans	9,464	8 599
<b>Current liabilities</b>		
Loans	4,317	4,262
<b>Total</b>	<b>13,781</b>	<b>12,861</b>

### Maturity profile

2017	Carrying amount	Nominal amount	Fair value	2016	Carrying amount	Nominal amount	Fair value
2017	–	–	–	2017	4,262	4,260	4,274
2018	4,317	4,315	4,323	2018	1,689	1,689	1,710
2019	1,851	1,850	1,885	2019	1,852	1,850	1,909
2020	1,120	1,120	1,146	2020	1,120	1,120	1,155
2021	1,700	1,700	1,763	2021	1,700	1,700	1,782
2022	2,351	2,350	2,375	2022	500	500	515
2023	409	456	418	2023	454	456	483
2024	975	980	1,043	2024	230	230	284
2025	500	500	521	2025	500	500	525
2026	374	375	397	2026	374	375	400
2027	–	–	–	2027	–	–	–
2028	–	–	–	2028	–	–	–
2029 and beyond	184	190	184	2029 and beyond	180	190	180
<b>Total</b>	<b>13,781</b>	<b>13,836</b>	<b>14,055</b>	<b>Total</b>	<b>12,861</b>	<b>12,870</b>	<b>13,217</b>

Of the Group's and the Parent Company's non-current loan liabilities, SEK 2,442 million (2,238) matures more than five years after the balance-sheet date.

Foreign currency bonds are translated to the balance-sheet date SEK exchange rate. The fair value of derivatives corresponds to the translated amounts of the bonds, thus largely neutralizing the foreign exchange effects. The market value of foreign currency bonds is translated to the balance-sheet date exchange rate and recognised in the tables in SEK. Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity. The fair value of foreign currency bonds is measured by discounting future cash flows at listed market interest rates and exchange rates for the respective maturity at the balance-sheet date.

### Funding is distributed as follows

#### Category – Financial liabilities measured at amortised cost

2017	Carrying amount	Nominal amount	Fair value
Overdraft facility	–	–	–
CSA deposits	–	–	–
Commercial paper	2,867	2,865	2,868
Fixed-interest bonds	7,647	7,655	7,914
Floating-rate bonds	2,674	2,670	2,671
Inflation-linked bonds	184	190	184
Foreign currency bonds	409	456	418
<b>Total</b>	<b>13,781</b>	<b>13,836</b>	<b>14,055</b>

2016	Carrying amount	Nominal amount	Fair value
Overdraft facility	14	14	14
CSA deposits	–	–	–
Commercial paper	3,011	3,010	3,014
Fixed-interest bonds	6,204	6,205	6,530
Floating-rate bonds	2,998	2,995	2,997
Inflation-linked bonds	180	190	180
Foreign currency bonds	454	456	482
<b>Total</b>	<b>12,861</b>	<b>12,870</b>	<b>13,217</b>

## continued, Note 16 Interest-bearing liabilities

### Group financing in foreign currency at the balance-sheet date

2017					
Currency	Nominal	Interest %	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
USD	25,000,000	2.56	-0.03	227,790,000	204,395,000
USD	25,000,000	2.59	0.00	227,790,000	204,395,000
2016					
Currency	Nominal	Interest %	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
USD	25,000,000	2.56	-0.07	227,790,000	227,040,000
USD	25,000,000	2.59	-0.04	227,790,000	227,040,000

#### Significant contractual conditions

The Group's loan agreements include an ownership clause which entitles lenders to call in a loan early if the state's ownership level falls below 100%.

#### Hedge accounting

Hedge accounting is not applied by the Group.

#### Currency distribution

When funding in foreign currency, all future payment flows are hedged so that currency risks are eliminated. All interest payments and future repayments are hedged through currency swaps.

The table "Group financing in foreign currency at the balance-sheet date" shows foreign currency at the balance-sheet date by original currency and after taking currency swaps into account. Foreign currency loans are translated at the closing-date exchange rate and the exchange-rate change is reported in net financial items.

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. The Group has not received any collateral as of 31 December 2017 but has provided collateral in two cases. Refer to Note 12 to the consolidated financial statements.

## Note 17 Other liabilities

Other liabilities	2017	2016
Customer advances	0	15
VAT	104	98
Other liabilities	3	7
<b>Total</b>	<b>107</b>	<b>120</b>

## Note 18 Accrued expenses and deferred income

	2017	2016
Deferred rental income	496	459
Accrued energy expenses	16	16
Accrued interest expenses	40	47
Accrued social-security expenses	-	2
Accrued holiday pay	8	8
Accrued payroll tax	3	2
Other items	12	8
<b>Total</b>	<b>575</b>	<b>542</b>

## Note 19 Financial risks and financial policy

The Group and Parent Company are exposed to various types of financial risk through their business operations. The term financial risks means fluctuations in the company's performance and cash flow due to the effect of interest-rate, financing, credit, currency and electricity price risk. All Group financial risks are brought into the Parent Company and managed from there. The Group's financial risks comprise the financial operations of the Parent Company. The Group's financial policy for managing financial risk has been adopted by the Board and comprises a framework of guidelines and rules in the form of risk mandates and limits for financial operations. The policy is designed to ensure that the owner's required return on equity is achieved in the safest way possible. The overall objective of treasury operations is to provide cost-effective funding and to minimise the adverse effects of market fluctuations on the Group's earnings.

### Financial operations

The Parent Company's financial department manages the Group's financial transactions and risks centrally. The Finance Manager deals with operational activities.

### Rating

The credit rating institute Standard & Poor's (S&P) has rated the company's long-term funding with an AA-F/Stable outlook and retained A-1+ for short-term funding. S&P raised the rating from AA to AA+ in 2005 given the continued long-term ownership aims of the Swedish government and the company's long-term ability to achieve the owner's return requirement. S&P confirmed the AA+ rating on 20 December 2017. When S&P assesses Specialfastigheter's stand-alone creditworthiness – the company's ability to stand-alone without Swedish state ownership – we receive an AA- credit rating.

### Interest-rate risk

Interest-rate risk refers to the risk of negative effects on interest expenses for existing and future financing due to interest-rate changes. Specialfastigheter's interest-rate exposure is governed by limiting the proportion maturing within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest period should be within a range of 1–5 years. On the closing date, the average fixed-interest period was 3.2 years (2.6). The fixed-interest period shows how quickly a change in interest rates will impact in the form of increased borrowing expenses. The objective of interest-rate risk management is to achieve low interest expenses over time while adapting the interest-rate profile to underlying business possibilities. At 31 December 2017, the portfolio's average interest rate for loans and derivatives was 0.82% (0.93). Inflation-linked bonds were issued for SEK 190 million (190) to protect inflation-linked items in the income statement, such as rental income and, operating and maintenance expenses.

The company's financial policy permits the use of derivatives. The main derivatives used are interest-rate swaps. The risk exposure of the total portfolio is governed by limits for fixed-interest periods. This leads to the limitation of the total risk effect of the derivatives portfolio. The company conducts derivative transactions to cost effectively manage the whole financial portfolio's allocation of interest-rate exposure over time. The derivatives portfolio has created a redistribution of interest-rate exposure from shorter to longer terms; refer to the "Maturity structure for fixed-interest and tied-up capital." The volume of tied-up capital includes loans and investments in covered bonds. The fixed-interest volume includes loans, derivatives and investments in covered bonds. The loan liability is calculated as a net liability, after taking into account any positive balances and investments.

On the balance-sheet date, unutilised guaranteed loan commitments, and cash and cash equivalents amounted to SEK 5,213 million (4,736) covering the refinancing risk for the next 17 months' (15) maturity.

### Financing risk

Financing risk refers to the risk that existing financing cannot be replaced or only at exceptionally high cost. The risk to Specialfastigheter also includes not being able to secure financing, for example in

connection with a major acquisition. To limit financing risk, Specialfastigheter strives to raise credits with long maturities and even maturity profiles for commercial paper and bonds issued. To further reduce financing risk, there are also guaranteed loan commitments and overdrafts totalling SEK 4,750 million (4,750).

No special undertakings are included in loan commitments other than ownership clauses and disclosure commitments. Two loan commitments totalling SEK 3,000 million increase the margin on loans drawn from the facility if the company's rating falls below AA-. The maturity of financial liabilities has been spread over time to limit refinancing risk. As of 31 December 2017, maturity was 3.4 years (3.3), and taking unutilised guaranteed loan commitments into consideration, maturity was 4.3 (4.0) years.

During the year, we increased investments in covered bonds by SEK 150 million to a total nominal amount of SEK 1,000 million (850) with a medium-term maturity; these investments are used as collateral for raising whole loan repos.

The company's nominal gross financial liability totalled SEK 13,836 million (12,870) at year end. Further reductions of the refinancing risk are achieved by diversifying funding sources; refer to the "Credit facilities" table. Borrowing is conducted in the Swedish and international credit markets through bond and commercial paper programmes and in the Swedish and international banking markets. Specialfastigheter conducts borrowing against the balance sheet without pledging properties. The company's loan contracts have included an ownership clause ever since 1999, which strengthens lenders' positions. The clause means that lenders are entitled to call a loan in early if state ownership falls below 100%.

The "Liquidity risk" table on page 91 shows agreed undiscounted cash flows, which include all financial liabilities including interest payments. Where the future variable interest rate is unknown, it has been estimated with the aid of implicit forward interest rates. Rental income is used to meet the future commitments presented in the table. Credit risk is assessed as negligible for rental income.

### Credit risks and counterparty risks in financial operations

Financial credit risk refers primarily to counterparty risks in connection with receivables from banks and other counterparties. The risk arises in derivatives trading or the investment of cash and cash equivalents. Specialfastigheter's policy to reduce credit risk is that the investment of cash and cash equivalents and entering into of derivative contracts may only be carried out with a limited number of counterparties and within approved limits. Cash and cash equivalents are used in practice to repay loans. Derivative counterparties are banks with high credit ratings.

The company's counterparty risk in derivative contracts totalled SEK 57 million (90) as of 31 December 2017; this corresponds to the company's total receivables from unrealised derivatives with positive values.

Securities received/paid are in the form of cash deposits.

The credit risk in daily business operations is limited by advance invoicing of rents, long leases and by tenants having a strong connection to the Swedish state.

### Financial items that have matured for payment at the year end, SEK million

	2017	2016
Financial assets	79	158
Financial liabilities	3	5

An impairment of SEK 0 million (0) was carried out on the balance-sheet date. SEK 1 million (1) of trade receivables were unpaid at 31 January 2018. Trade payables of SEK 2 million (0) were unpaid in January.

## continued, Note 19 Financial risks and financial policy

### Currency risk

Foreign currency borrowing outside the Swedish market takes place if it is advantageous from an overall cost or diversification perspective. Foreign currency exposures must be hedged if they exceed a value equivalent to SEK 5 million. Foreign currency hedging refers to the use of financial derivatives or matching between assets and liabilities. Since the Group's activities are exclusively denominated in Swedish krona, all currency risks in connection with financing in foreign currencies have been eliminated through currency derivatives. Because currency exposure also occurs when financial electricity derivatives are taken up, they are hedged by means of currency derivatives. The effects of the unrealised change in value are reported under "Change in value of financial instruments, unrealised" in the income statement, while foreign currency loans are translated at the balance-sheet date exchange rate and reported in net financial items.

The following table shows the Group's borrowing and hedging in foreign currency.

### Nominal amounts (SEK) per business day

2017			
Original currency	Loan	Derivative	Total
USD	456.0	-456.0	0

2016			
Original currency	Loan	Derivative	Total
USD	456.0	-456.0	0

### Electricity price risk

Electricity price risk refers to the risk of fluctuations in the future price of electricity adversely affecting the company's operating expenses. As a consequence of this, the company has established an electricity price policy with a long-term price-hedging strategy; refer to the "Hedged portion of future electricity consumption" table. To limit the electricity price risk for estimated electricity consumption, the com-

pany buys price-hedging contracts in the form of electricity futures. These are managed through day-to-day analysis of the electricity market and the company's own portfolio. Price hedging is done in sub items to reduce the risk of undertaking large price hedges in expensive circumstances. In this way the hedged portion increases as the consumption date approaches. By the time a budgeted price is to be given for the coming year, a large portion has been price-hedged.

Specialfastigheter passes on most of the electricity cost to its tenants, which means the price risk to the company is negligible.

### Derivatives

Specialfastigheter uses derivative instruments to manage interest-rate risk and to thereby achieve the desired fixed-rate structure and to manage currency risk and to hedge loans in foreign currencies.

Over time, changes in value may arise in the derivatives portfolio owing to changes in market interest rates and exchange rates. These unrealised changes in value are recognised in profit or loss. Electricity derivatives are measured at fair value and recognised in profit or loss. The electricity consumption expense is recognised on an ongoing basis in profit or loss. Financial interest-rate derivatives are measured at fair value according to the closing interest rate as of the balance-sheet date.

### Financial instruments measured at fair value

The fair value of financial instruments can be determined in various ways.

Level 1	Fair value determined by prices quoted in an active market for the same instrument.
Level 2	Fair value determined either by directly or indirectly observable market data not included in Level 1.
Level 3	Fair value determined based on data that is not observable in the market.

The following table describes how fair value was determined for the company's financial instruments.

### Financial instruments – Measured at fair value

2017	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	–	-40	–	-40
Currency swaps	–	-56	–	-56
Electricity futures	6	–	–	6
Net	6	-96	–	-90

2016	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	–	-39	–	-39
Currency swaps	–	9	–	9
Electricity futures	3	–	–	3
Net	3	-30	–	-27

### Credit facilities

	Loan limit		Utilised	
	2017	2016	2017	2016
CSA deposits	–	–	-74	-59
Guaranteed loan commitments	4,750	4,750	-465	14
Commercial paper	4,000	4,000	2,865	3,010
MTN programme	13,000	13,000	10,325	9,200
Private Placements	956	956	646	646
Whole loan repos	1,000	850	–	–
Investments	-1,000	-1,000	-1,000	-850
<b>Total</b>	<b>22,706</b>	<b>22,556</b>	<b>12,297</b>	<b>11,961</b>

**continued, Note 19** Financial risks and financial policy

**Liquidity risk**

2017	Loan	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-2,280	2	-7	-5	-148
Between 3 and 12 months	-2,156	27	-17	10	-
Between 1 and 3 years	-4,967	66	-62	4	-
Between 3 and 5 years	-3,919	43	-50	-7	-
<b>Total</b>	<b>-13,322</b>	<b>138</b>	<b>-136</b>	<b>2</b>	<b>-148</b>

2016	Loans	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-3 148	2	-8	-6	-164
Between 3 and 12 months	-2,514	32	-19	13	-
Between 1 and 3 years	-4,929	76	-59	17	-
Between 3 and 5 years	-3,555	66	-76	-10	-
<b>Total</b>	<b>-14,146</b>	<b>176</b>	<b>-162</b>	<b>14</b>	<b>-164</b>

**Exposure to counterparty risks distributed across different rating categories**

Institute with long rating, 2017	Asset	Liability	Securities received/paid	Net exposure
AA-	22	-57	33	-2
A+	18	-23	-	-5
A	9	-65	41	-15
BBB+	-	-	-	-
Electricity derivatives	8	-2	-	6
<b>Total</b>	<b>57</b>	<b>-147</b>	<b>74</b>	<b>-16</b>

Institute with long rating, 2016	Asset	Liability	Securities received/paid	Net exposure
AA-	27	-64	48	11
A+	29	-31	11	9
A	28	-19	-	9
BBB+	-	-	-	-
Electricity derivatives	6	-3	-	3
<b>Total</b>	<b>90</b>	<b>-117</b>	<b>59</b>	<b>32</b>

**Hedged portion of future electricity consumption**

2017					2016				
Year	GWh	Min. limit	Max. limit	Proportion	Year	GWh	Min. limit	Max. limit	Proportion
2018	102	70%	100%	79%	2017	102	70%	100%	79%
2019	102	40%	100%	60%	2018	102	40%	100%	55%
2020	102	20%	100%	30%	2019	102	20%	100%	50%
2021	102	0%	100%	25%	2020	102	0%	100%	30%

**Maturity profile for electricity derivatives**

2017			2016		
Year	GWh	Market value	Year	GWh	Market value
2018	80	2	2017	81	3
2019	61	2	2018	57	1
2020	31	1	2019	51	-1
2021	26	1	2020	31	0
2022	0	0	2021	26	0
<b>Total</b>	<b>198</b>	<b>6</b>	<b>Total</b>	<b>246</b>	<b>3</b>

## continued, Note 19 Financial risks and financial policy

### Derivative portfolio's market value

	2017			2016		
	Nominal value	Positive value	Negative value	Nominal value	Positive value	Negative value
Currency swaps	456	9	65	456	28	19
Interest-rate swaps	3,104	40	80	3,305	56	95
Electricity futures	–	8	2	–	6	3
<b>Total</b>	<b>3,560</b>	<b>57</b>	<b>147</b>	<b>3,761</b>	<b>90</b>	<b>117</b>

### Sensitivity analysis

Change	Pre-tax change in profit or loss	Change in equity after tax
Change in net financial items if market rate increases 1%, annual expense change	Earnings decrease SEK 46 million (44)	Equity decreases SEK 36 million (34)
Change in value of financial derivatives if market rate increases 1%	Earnings increase SEK 25 million (22)	Equity increases SEK 19 million (17)
Currency risk is hedged by currency swaps, which removes the effect of exchange-rate changes	No change	No change
Electricity price risk – electricity futures reduce price volatility. The majority of electricity expenses are then passed on to the tenants.	No change	No change

### Maturity structure for fixed-interest and tied-up capital

	Fixed-interest		Tied-up capital	
	2017	2016	2017	2016
2017	–	6,614 <sup>1</sup>	–	4,203 <sup>1</sup>
2018	5,514 <sup>1</sup>	600 <sup>2</sup>	4,243 <sup>1</sup>	1,489 <sup>2</sup>
2019	598 <sup>2</sup>	850 <sup>2</sup>	1,176 <sup>2</sup>	1,652 <sup>2</sup>
2020	394 <sup>2</sup>	100 <sup>2</sup>	807 <sup>2</sup>	820 <sup>2</sup>
2021	1,695 <sup>2</sup>	1,550 <sup>2</sup>	1,389 <sup>2</sup>	1,550 <sup>2</sup>
2022	1,846 <sup>2</sup>	500	2,146 <sup>2</sup>	500
2023	153	454	409	454
2024	845	230	975	230
2025	500	500	500	500
2026	374	374	374	374
2027	–	–	–	–
2028	–	–	–	–
2029 and beyond	284	180	184	180
<b>Total</b>	<b>12,203</b>	<b>11,952</b>	<b>12,203</b>	<b>11,952</b>

1) Includes CSA deposits given and received.

2) Includes investments in covered bonds.

**continued, Note 19** Financial risks and financial policy

**Carrying amount per category**

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets measured at FVTPL</b>				
Interest-rate derivatives	40	40	56	56
Currency derivatives	9	9	28	28
Electricity derivatives	8	8	6	6
<b>Loan and trade receivables</b>				
Trade receivables	144	144 <sup>1</sup>	206	206 <sup>1</sup>
CSA deposits	74	74 <sup>1</sup>	59	59 <sup>1</sup>
Accrued interest income	–	–	–	–
Cash and cash equivalents	465	465	4	4
<b>Financial assets translated at balance-sheet date exchange rate</b>				
Covered bonds	1,040	1,040	897	897
Other shares and participations	0	0	0	0
<b>Financial liabilities measured at FVTPL</b>				
Interest-rate derivatives	80	80	95	95
Currency derivatives	65	65	19	19
Electricity derivatives	2	2	3	3
<b>Financial liabilities measured at amortised cost</b>				
Commercial paper	2,867	2,868 <sup>2</sup>	3,011	3,014 <sup>2</sup>
Fixed-interest bonds	7,647	7,914 <sup>2</sup>	6,204	6,530 <sup>2</sup>
Floating-rate bonds	2,674	2,671 <sup>2</sup>	2,998	2,997 <sup>2</sup>
Trade payables	148	148 <sup>1</sup>	163	163 <sup>1</sup>
CSA deposits	–	–	–	–
Accrued interest expenses	40	40 <sup>1</sup>	47	47 <sup>1</sup>
<b>Financial liabilities translated at balance-sheet date exchange rate</b>				
Inflation-linked bonds	184	184 <sup>2</sup>	180	180 <sup>2</sup>
Foreign currency bonds	409	418 <sup>2</sup>	454	482 <sup>2</sup>

1) Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity. The fair value of bonds in foreign currency is measured by discounting future cash flows at the balance-sheet date exchange rate for the respective maturity.

2) Market quotations and generally accepted Level 2 calculation methods are used to determine fair value on the closing date.

**Financial assets and liabilities that are offset or covered by a general netting arrangement**

2017	Gross amount	Offset amount	Net amount in balance sheet	Amounts covered by a general or similar netting agreement <sup>1</sup>		Net amount
				Financial instruments	Financial collateral, received/paid	
Derivative assets	57	–	57	-57	–	–
Derivative liabilities	-147	–	-147	57	74	-16
<b>Total</b>	<b>-90</b>	<b>–</b>	<b>-90</b>	<b>–</b>	<b>74</b>	<b>-16</b>

2016	Gross amount	Offset amount	Net amount in balance sheet	Amounts covered by a general or similar netting agreement <sup>1</sup>		Net amount
				Financial instruments	Financial collateral, received/paid	
Derivative assets	90	–	90	-90	–	–
Derivative liabilities	-117	–	-117	90	59	32
<b>Total</b>	<b>-27</b>	<b>–</b>	<b>-27</b>	<b>–</b>	<b>59</b>	<b>32</b>

1) These financial assets and liabilities are only offset in the case of insolvency or upon suspension of payments by either party. These also include arrangements where the Group has no intention of divesting the instruments concurrently.

## continued, Note 19 Financial risks and financial policy

### Summary of liabilities attributable to financing activities

	Cash flow items			Non-cash items			Closing balance 2017
	Closing balance 2016	Cash flow from financing activities	Accounting effects	Effect of changed exchange rate	Change in fair value	Price change	
Interest-bearing liabilities	12,861	940	22	-45	-	3	13,781
Non-interest-bearing liabilities	120	-13	-	-	-	-	107
Interest-rate and cross-currency swaps, fair value hedges	114	-	-	45	-14	-	145
Electricity futures, fair value hedges	3	-	-	-	-1	-	2
<b>Total liabilities attributable to financing activities</b>	<b>13,098</b>	<b>927</b>	<b>22</b>	<b>-</b>	<b>-15</b>	<b>3</b>	<b>14,035</b>

This table is based on the new regulatory framework pursuant to IAS 7 whereby no comparative figures are needed for 2016.

## Note 20 Related parties

### Related-party transactions

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2017	2016	2017	2016
Intra-Group income	-	-	5	2
Intra-Group expenses	-	-	-	-
Current intra-Group receivables	-	-	3	9
Non-current intra-Group receivables	-	-	394	217
Intra-Group liabilities	-	-	-	-

### Transactions with the shareholder

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2017	2016	2017	2016
Dividend	-	-	497	446

There are no dealings with the owner, the Swedish State, other than those stipulated by law. The Parent Company, Specialfastigheter Sverige AB, company registration number 556537-5945, has a close relationship with its subsidiaries; refer to Note 15 for the Parent Company. For more information on salaries and other remuneration,

expenses and commitments with respect to pensions and similar benefits of the Board, CEO and other senior executives, as well as contracts concerning severance payments, see Note 7 to the consolidated financial statements.

## Note 21 Pledged assets and contingent liabilities

	2017	2016
Pledged assets	None	None
Contingent liabilities	None	None

## Note 22 Events after the balance-sheet date

Specialfastigheter Sverige AB has taken possession of the Läkaren 2 and 4 properties in Värnamo. These properties house tenants including the SiS Fortunagården institution.

## Parent Company income statement, SEK million

	Note	Full-year 2017	Full-year 2016
Rental income		1,768	1,721
Other income	2	181	160
<b>Net sales</b>		<b>1,949</b>	<b>1,881</b>
Operating expenses	3	-518	-497
Depreciation of investment properties		-609	-590
<b>Gross profit</b>		<b>822</b>	<b>794</b>
Central administration	4, 5	-55	-61
Gain/loss on property sales	6	86	49
<b>Operating profit</b>	7	<b>853</b>	<b>782</b>
<b>Profit/loss from financial investments</b>			
Other interest income and similar profit/loss items	8	74	66
Interest expense and similar profit/loss items	8	-208	-182
<b>Profit after financial items</b>		<b>719</b>	<b>666</b>
Appropriations	9	-100	-66
Tax on profit for the year	10	-137	-132
<b>Net profit for the year</b>	11	<b>482</b>	<b>468</b>
Of which attributable to the Parent Company's shareholder		482	468

## Parent Company – Statement of comprehensive income, SEK million

	Full-year 2017	Full-year 2016
<b>Net profit for the year</b>	<b>482</b>	<b>468</b>
Total other comprehensive income for the year, net after tax	–	–
<b>Total comprehensive income for the year</b>	<b>482</b>	<b>468</b>
Of which attributable to the Parent Company's shareholder	482	468

Since the Parent Company's and the Consolidated income statements and balance sheets largely correspond, we have issued no separate comments for the Parent Company.

## Parent Company – Balance sheet, SEK million

	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	12, 13	15,000	14,904
Plant and equipment	14	6	9
Financial assets	15	2,267	1,677
<b>Total non-current assets</b>		<b>17,273</b>	<b>16,590</b>
<b>Current assets</b>			
Trade receivables		144	206
Current investments	16	3	4
Current receivables	17	15	87
Prepaid expenses and accrued income	18	28	18
Cash and bank balances	19	465	4
<b>Total current assets</b>		<b>655</b>	<b>319</b>
<b>Total assets</b>		<b>17,928</b>	<b>16,909</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital (2,000,000 shares)		200	200
Statutory reserve		42	42
<b>Total restricted equity</b>		<b>242</b>	<b>242</b>
<b>Non-restricted equity</b>			
Retained earnings		202	231
Net profit for the year		482	468
<b>Total non-restricted equity</b>		<b>684</b>	<b>699</b>
<b>Total equity</b>		<b>926</b>	<b>941</b>
<b>Untaxed reserves</b>	20	<b>1,480</b>	<b>1,380</b>
<b>Liabilities</b>			
<b>Interest-bearing liabilities</b>			
Green bonds	21	1,244	–
Other loan liabilities	21	12,537	12,861
<b>Non-interest-bearing liabilities</b>			
Tax liability	10	24	23
Other liabilities	22	396	383
Deferred tax liabilities	10	775	787
Accrued expenses and deferred income	23	546	534
<b>Total liabilities</b>		<b>15,522</b>	<b>14,588</b>
<b>Total equity and liabilities</b>		<b>17,928</b>	<b>16,909</b>

## Parent Company – Changes in equity, SEK million

### Attributable to the Parent Company's shareholder

	Restricted equity	Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	
<b>2017</b>				
Opening balance, 1 January 2017	200	42	699	941
<b>Comprehensive income</b>				
Net profit for the year	–	–	482	482
Other comprehensive income	–	–	–	–
<b>Total</b>	<b>200</b>	<b>42</b>	<b>1,181</b>	<b>1,423</b>
<b>Transactions with the shareholder</b>				
Dividend	–	–	-497	-497
<b>Total transactions with the shareholder</b>	<b>–</b>	<b>–</b>	<b>-497</b>	<b>-497</b>
Closing balance, 31 December 2017	200	42	684	926

	Restricted equity	Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	
<b>2016</b>				
Opening balance, 1 January 2016	200	42	653	895
<b>Comprehensive income</b>				
Merged subsidiaries	–	–	24	24
Net profit for the year	–	–	468	468
Other comprehensive income	–	–	–	–
<b>Total</b>	<b>200</b>	<b>42</b>	<b>1,145</b>	<b>1,387</b>
<b>Transactions with the shareholder</b>				
Dividend	–	–	-446	-446
<b>Total transactions with the shareholder</b>	<b>–</b>	<b>–</b>	<b>-446</b>	<b>-446</b>
Closing balance, 31 December 2016	200	42	699	941

## Parent Company – Cash-flow statement, SEK million

	Full-year 2017	Full-year 2016
<b>Operating activities</b>		
Gross profit	822	794
Central administration	-55	-61
Net financial expense	-134	-116
Reversal, change in value of financial investments	63	37
Reversal, change in price of covered bonds	-39	-4
Reversal of depreciation	612	593
Profit/loss from sales, liquidations and mergers	-	-58
Income tax paid	-149	-109
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,120</b>	<b>1,076</b>
<b>Change in working capital</b>		
Change in receivables	121	107
Change in other current liabilities	-5	43
<b>Total change in working capital</b>	<b>116</b>	<b>150</b>
<b>Cash flow from operating activities</b>	<b>1,236</b>	<b>1,226</b>
<b>Investing activities</b>		
Acquisition of investment properties	0	-95
Investment in investment properties	-1,166	-498
Disposal of investment properties	86	81
Acquisition of property, plant and equipment	0	-1
Disposal of property, plant and equipment	0	0
<b>Cash flow from investing activities</b>	<b>-1,080</b>	<b>-513</b>
<b>Financing activities</b>		
Investment, covered bonds	-148	-371
Borrowings	17,514	18,660
Repayments of borrowings	-16,564	-18,554
Dividend paid to Parent Company's shareholder	-497	-446
<b>Cash flow from financing activities</b>	<b>305</b>	<b>-711</b>
<b>Cash flow for the year</b>	<b>461</b>	<b>2</b>
Opening cash and cash equivalents	4	2
<b>Closing cash and cash equivalents</b>	<b>465</b>	<b>4</b>
<b>Interest</b>		
Interest received	19	14
Interest paid	108	85

## Note 1 Parent Company accounting policies

The Parent Company applies the same accounting policies as the Group, except in the cases specified below. The deviations between the Parent Company's and the Group's policies arise from limitations in the Parent Company's ability to apply IFRS as a result of provisions in the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and in certain cases for tax reasons.

### Parent Company accounting policies

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 of the Swedish Financial Reporting Board, Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board applicable to listed companies are also applied. RFR 2 means that the Parent Company must apply all EU-approved IFRSs and interpretations insofar as this is possible under the provisions of the Annual Accounts Act, the Swedish Pension Obligations Vesting Act and with due consideration to the relationship between accounting and taxation.

### Changes in accounting policies

New standards and interpretations that entered force in 2017 have not had any impact on the financial statements.

### Classification and structure

The Parent Company's income statement and balance sheet follow the structure of the Annual Accounts Act. The principal difference in comparison with IAS 1 Presentation of Financial Statements applied in the layout of the Group's financial statements is the presentation of operating profit, financial income and expenses, non-current assets, equity and the occurrence of provisions as separate headings in the balance sheet.

### Subsidiaries

Participations in subsidiaries are recognised in the Parent Company in accordance with the cost method. Acquisition-related expenses for subsidiaries are included in the cost of the shares in the subsidiary. Dividends received are recognised as income.

### Depreciation

Earnings in the income statement have been charged with depreciation according to plan. In the case of plant and equipment, the difference between fiscal and planned depreciation is reported as an appropriation, and accumulated accelerated depreciation as untaxed reserves. A review of economic lives of buildings was carried out during the year. Since the maximum fiscal rate falls short of planned depreciation, a deferred tax asset arises. The company includes the deferred tax asset in its total recognised deferred tax liability.

Planned depreciation is based on an asset's cost and estimated economic life.

### The following depreciation rates were used:

Building fixtures and fittings	10% per year
Buildings	2–7% per year
In ground fixtures and fittings	5% per year
Land improvements	5% per year

### Buildings

Buildings in the Parent Company are recognised at cost less accumulated depreciation. Cost consists of the acquisition cost, land registration costs and value enhancing improvements. Only expenses that generate lasting value enhancement to a property are capitalised. Interest expenses are also capitalised during the production period in the case of major new builds, extensions and redevelopments.

In conjunction with the review of the economic useful life as described in the Depreciation section above, the company is having all properties valued using the model described in Note 9 to the consolidated financial statements. If the value of a property thus estimated falls significantly below the carrying amount, an impairment loss is recognised for the property. No impairments were recognised in 2017. At 31 December 2017, the Parent Company's property holdings were valued at SEK 23,399 million.

### Plant and equipment

Plant and equipment in the Parent Company are reported at cost less accumulated depreciation and any impairment losses in the same way as for the Group, but with the addition of possible positive revaluations.

### Leased assets

For further information, see Note 1 to the consolidated financial statements.

### Taxes

Untaxed reserves including deferred tax liabilities are recognised in the Parent Company. However, in the consolidated financial statements untaxed reserves are divided into deferred tax liabilities and equity.

### Group contributions and shareholder contributions for legal entities

The recipient recognises shareholder's contributions directly in equity and the donor capitalises contributions in shares and participations, to the extent that impairment is not required. A Group contribution received by the Parent Company from a subsidiary is recognised applying the same principles as customary dividends from subsidiaries and are recognised as financial income. Group contributions paid by the Parent Company to subsidiaries are recognised as an increase in the carrying amount of the participations in the subsidiary. No Group contributions were paid during 2017.

### Financial risk management

For further information, see notes 6, 12, 16 and 19 to the consolidated financial statements.

**Note 2** Other income

	2017	2016
Invoiced energy and fuel expenses	67	53
Invoiced services	102	92
Invoiced services within the Group	5	2
Compensation received	7	13
Other	0	0
<b>Total</b>	<b>181</b>	<b>160</b>

**Note 3** Operating expenses

	2017	2016
Energy, fuel and water	139	128
Property operations	265	237
Property tax	39	39
Maintenance	75	93
<b>Total</b>	<b>518</b>	<b>497</b>

**Note 4** Administration

	2017	2016
Payroll expenses	42	48
Depreciation of plant and equipment	3	3
Other expenses (Inspections, consultants' fees, other)	10	10
<b>Total</b>	<b>55</b>	<b>61</b>

**Note 5** Auditors' fees

Refer to Note 5 to the consolidated financial statements.

**Note 6** Gain/loss on property sales

	2017	2016
Proceeds, properties sold	112	78
Book value, properties sold	-25	-27
Selling expenses	-1	-2
<b>Total</b>	<b>86</b>	<b>49</b>

**Note 7** Employees, payroll expenses and Board fees

Refer to Note 7 to the consolidated financial statements.

**Note 8** Net financial items

	2017	2016
Interest income, subsidiaries	2	1
Interest income, covered bonds	17	14
Other interest income	0	0
Investment gains	47	4
Changes in value on revaluation of financial derivatives	8	47
<b>Financial income</b>	<b>74</b>	<b>66</b>
Interest expenses, bonds	112	121
Other interest expenses	-4	-37
Investment losses	13	-
Other financial expenses	17	14
Capitalisation of interest, projects in progress	-1	-1
Changes in value on revaluation of financial derivatives	71	85
<b>Financial expenses</b>	<b>208</b>	<b>182</b>
<b>Net financial expense</b>	<b>134</b>	<b>116</b>

**Note 9** Appropriations

	2017	2016
Difference between book depreciation and depreciation according to plan:		
Plant and equipment	-27	-41
Provision to tax allocation reserve	227	212
Reversal from tax allocation reserve	-100	-105
<b>Total</b>	<b>100</b>	<b>66</b>

**Note 10** Taxes

<b>Recognised in profit or loss</b>	2017	2016
Current tax expense	149	140
Deferred tax expense	-12	-8
<b>Total recognised tax</b>	<b>137</b>	<b>132</b>

<b>Reconciliation of effective tax</b>		
Recognised EBT	619	600
Swedish income tax rate, 22%	136	132
Tax-exempt income	0	0
Non-deductible expenses	0	0
Adjusted sale proceeds	0	0
Standard interest tax allocation reserve	1	0
	<b>137</b>	<b>132</b>

<b>Recognised in the balance sheet</b>		
<b>Liabilities</b>		
Deferred tax liability	775	787
Current tax	24	23
<b>Total</b>	<b>799</b>	<b>810</b>

<b>Deferred tax assets and liabilities</b>		
Financial assets	-21	-6
Capitalised maintenance expenses	141	101
Property depreciation, revaluation	655	692
<b>Total</b>	<b>775</b>	<b>787</b>

Deferred tax in respect of the revaluation reserve has been recognised in equity.

## Note 11 Appropriation of profits and dividend

The dividend paid to the shareholder in May 2017 totalled SEK 497,000,000 (SEK 446,000,000) and comprised an ordinary dividend, as defined in the dividend policy, of SEK 497,000,000. The dividend per share was SEK 249 (223). Regarding the dividend for this year, the Board proposes that a dividend of SEK 280 per share be paid to the shareholder. A resolution will be taken by the shareholder regarding the dividend at the AGM. The dividend has not been taken up as a liability in the annual accounts. The dividend is estimated to total SEK 560,000,000.

### Non-restricted equity, Parent Company:

Retained earnings	SEK 202,164,580
Net profit for the year	SEK 482,032,235
<b>Total</b>	<b>SEK 684,196,815</b>

### The Board and CEO propose that earnings be appropriated as follows:

Dividend payable to the shareholder	SEK 560,000,000
To be carried forward	SEK 124,196,815
<b>Total</b>	<b>SEK 684,196,815</b>

## Note 12 Buildings, building fixtures and fittings, land, land improvements, in ground fixtures and fittings

<b>Buildings</b>	<b>2017</b>	<b>2016</b>
Opening cost	12,460	11,176
Opening cost transferred through merger	–	1,121
Surplus value on merger	–	8
Purchases	–	88
Projects completed	108	42
Capitalised maintenance expenses	131	118
Sales and disposals	-82	-93
<b>Closing accumulated cost</b>	<b>12,617</b>	<b>12,460</b>
Opening depreciation	4,363	4,007
Opening depreciation transferred through merger	–	57
Sales and disposals	-76	-62
Depreciation for the year	376	361
<b>Closing accumulated depreciation</b>	<b>4,663</b>	<b>4,363</b>
Opening revaluations	4,274	4,274
Revaluations for the year	–	–
<b>Closing accumulated revaluations</b>	<b>4,274</b>	<b>4,274</b>
Opening depreciation on revalued amounts	335	203
Depreciation for the year on revalued amounts	132	132
<b>Closing accumulated depreciation on revalued amounts</b>	<b>467</b>	<b>335</b>
Opening impairment charges	94	94
Impairment charges for the year	–	–
<b>Closing accumulated impairment charges</b>	<b>94</b>	<b>94</b>
<b>Closing residual value according to plan</b>	<b>11,667</b>	<b>11,942</b>
Tax assessment value, properties in Sweden	2,925	2,920
<b>Building fixtures and fittings</b>		
Opening cost	866	676
Opening cost transferred through merger	–	190
Purchases	–	–
Projects completed	16	8
Sales and disposals	-1	-8
<b>Closing accumulated cost</b>	<b>881</b>	<b>866</b>
Opening depreciation	569	467
Opening depreciation transferred through merger	–	41
Sales and disposals	-1	-8
Depreciation for the year	71	69
<b>Closing accumulated depreciation</b>	<b>639</b>	<b>569</b>
<b>Closing residual value according to plan</b>	<b>242</b>	<b>297</b>

<b>Land</b>	<b>2017</b>	<b>2016</b>
Opening cost	1,388	1,098
Opening cost transferred through merger	–	188
Surplus value on merger	–	94
Purchases	–	10
Sales and disposals	-17	-2
<b>Closing accumulated cost</b>	<b>1,371</b>	<b>1,388</b>
<b>Closing residual value according to plan</b>	<b>1,371</b>	<b>1,388</b>
Tax assessment value, properties in Sweden	974	972
<b>Land improvements</b>		
Opening cost	267	263
Opening cost transferred through merger	–	3
Projects completed	27	3
Sales and disposals	-2	-2
<b>Closing accumulated cost</b>	<b>292</b>	<b>267</b>
Opening depreciation	127	115
Opening depreciation transferred through merger	–	0
Sales and disposals	-2	-1
Depreciation for the year	14	13
<b>Closing accumulated depreciation</b>	<b>139</b>	<b>127</b>
<b>Closing residual value according to plan</b>	<b>153</b>	<b>140</b>
<b>In ground fixtures and fittings</b>		
Opening cost	312	303
Opening cost transferred through merger	–	7
Projects completed	42	2
Sales and disposals	-1	0
<b>Closing accumulated cost</b>	<b>353</b>	<b>312</b>
Opening depreciation	134	118
Opening depreciation transferred through merger	–	1
Sales and disposals	0	0
Depreciation for the year	17	15
<b>Closing accumulated depreciation</b>	<b>151</b>	<b>134</b>
<b>Closing residual value according to plan</b>	<b>202</b>	<b>178</b>
<b>Total</b>		
Opening cost	15,293	13,516
Opening cost transferred through merger	–	1,509
Surplus value on merger	–	102
Purchases	–	98
Projects completed	193	55
Capitalised maintenance expenses	131	118
Sales and disposals	-103	-105
<b>Closing accumulated cost</b>	<b>15,514</b>	<b>15,293</b>
Opening depreciation	5,193	4,707
Opening depreciation transferred through merger	–	99
Sales and disposals	-79	-71
Depreciation for the year	478	458
<b>Closing accumulated depreciation</b>	<b>5,592</b>	<b>5,193</b>
Opening revaluations	4,274	4,274
Revaluations for the year	–	–
<b>Closing accumulated revaluations</b>	<b>4,274</b>	<b>4,274</b>
Opening depreciation on revalued amounts	335	203
Depreciation for the year on revalued amounts	132	132
<b>Closing accumulated depreciation on revalued amounts</b>	<b>467</b>	<b>335</b>
Opening impairment charges	94	94
Impairment charges for the year	–	–
<b>Closing accumulated impairment charges</b>	<b>94</b>	<b>94</b>
<b>Closing residual value according to plan</b>	<b>13,635</b>	<b>13,945</b>
Tax assessment value, properties in Sweden	3,899	3,892

**Note 13** Construction in progress

	2017	2016
Opening balance	959	433
Accrued expenses for the year	730	699
Capitalised maintenance expenses	-131	-118
Projects completed	-193	-55
<b>Closing balance</b>	<b>1,365</b>	<b>959</b>

**Note 14** Plant and equipment

	2017	2016
Opening cost	25	21
Purchases	0	4
Sales and disposals	0	0
<b>Closing accumulated cost</b>	<b>25</b>	<b>25</b>
Opening depreciation	16	13
Sales and disposals	0	0
Depreciation for the year	3	3
<b>Closing accumulated depreciation</b>	<b>19</b>	<b>16</b>
<b>Closing residual value according to plan</b>	<b>6</b>	<b>9</b>

**Note 15** Financial assets

	2017	2016
Shares in subsidiaries	692	408
Other shares	0	0
Receivables from subsidiaries	394	217
Derivatives measured at FVTPL	54	86
CSA deposits	74	59
Covered bonds	1,040	897
Value-added tax for adjustment	13	10
<b>Total</b>	<b>2,267</b>	<b>1,677</b>

**Shares in subsidiaries 2017**

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Specialfastigheter Lejonet 11 AB	100%	100%	500	294,402
Specialfastigheter F-öarna 6 AB	100%	100%	1,000	281,609
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB	100%	100%	500	50
Västrike Fastighets AB	100%	100%	500	50
<b>Carrying amount of shares in subsidiaries 2017</b>				<b>692,242</b>

**Shares in subsidiaries 2016**

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Specialfastigheter Lejonet 11 AB	100%	100%	500	291,881
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB	100%	100%	500	50
Västrike Fastighets AB	100%	100%	500	50
<b>Carrying amount of shares in subsidiaries 2016</b>				<b>408,112</b>

## continued, Note 15 Financial assets

## Shares, indirectly owned subsidiaries 2017

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
<i>Owned by Västrike Fastighets AB</i>				
Västrike 2 Fastighets AB (dormant company)	100%	100%	500	50
Säkerhetsfastigheter Sverige AB (dormant company)	100%	100%	500	50
<b>Carrying amount of shares in subsidiaries 2017</b>				<b>100</b>

## Shares, indirectly owned subsidiaries 2016

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
<i>Owned by Nordrike Fastighets AB</i>				
Nordrike 2 Fastighets AB	100%	100%	500	50
<i>Owned by Västrike Fastighets AB</i>				
Västrike 2 Fastighets AB (dormant company)	100%	100%	500	50
Säkerhetsfastigheter Sverige AB (dormant company)	100%	100%	500	50
<b>Carrying amount of shares in subsidiaries 2016</b>				<b>150</b>

## Information on company registration numbers and registered offices, 2017

Subsidiary	Co. Reg. No.	Registered office
Specialfastigheter Lejonet AB	559077-3015	Linköping
Specialfastigheter F-öarna 6 AB	556661-1447	Linköping
Specialfastigheter Gärdet AB	556910-1370	Linköping
Nordrike Fastighets AB	556832-2290	Linköping
Västrike Fastighets AB (dormant company)	556963-5187	Linköping
<b>Indirectly owned subsidiaries</b>		
Nordrike 2 Fastighets AB	556938-3929	Linköping
Västrike 2 Fastighets AB (dormant company)	556963-5179	Linköping
Säkerhetsfastigheter Sverige AB (dormant company)	556963-5161	Linköping

**Note 16** Current investments

	2017	2016
Derivatives measured at FVTPL	3	4
<b>Total</b>	<b>3</b>	<b>4</b>

**Note 17** Current receivables

	2017	2016
Receivables from subsidiaries	3	9
Receivables, properties sold	–	68
Opening suspended VAT	12	–
Other receivables	0	10
<b>Total</b>	<b>15</b>	<b>87</b>

**Note 18** Prepaid expenses and accrued income

	2017	2016
Prepaid energy expenses	3	3
Other interim receivables	25	15
<b>Total</b>	<b>28</b>	<b>18</b>

**Note 19** Cash and cash equivalents

	2017	2016
Bank balances	465	4
<b>Total</b>	<b>465</b>	<b>4</b>

**Note 20** Untaxed reserves

	2017	2016
Accumulated difference between reported depreciations and depreciations according to plan	391	418
Tax allocation reserve	1,089	962
<b>Total</b>	<b>1,480</b>	<b>1,380</b>

**Note 21** Interest-bearing liabilities

Refer to Note 16 to the consolidated financial statements.

**Note 22** Other liabilities

	2017	2016
Customer advances	0	–
Trade payables	147	162
Derivatives measured at FVTPL	147	117
VAT	99	98
Other liabilities	3	6
<b>Total non-interest-bearing liabilities</b>	<b>396</b>	<b>383</b>

**Note 23** Accrued expenses and deferred income

	2017	2016
Deferred rental income	469	452
Accrued energy expenses	14	14
Accrued interest expenses	40	47
Accrued social-security expenses	–	2
Accrued holiday pay	8	8
Accrued payroll tax	3	3
Other items	12	8
<b>Total</b>	<b>546</b>	<b>534</b>

**Note 24** Related parties

Refer to Note 20 to the consolidated financial statements.

**Note 25** Pledged assets and contingent liabilities

	2017	2016
Pledged assets	None	None
Contingent liabilities	None	None

**Note 26** Events after the balance-sheet date

Specialfastigheter Sverige AB has taken possession of the Läkaren 2 and 4 properties in Värnamo. These properties house tenants including the SIS Fortunagården institution.

# Declaration by the Board

The consolidated financial statements and annual accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and good accounting practice and present a true and fair view of the position and results of the Group and the Parent Company.

The Administration Report for the Group and the Parent Company presents a true and fair overview of the activities, financial position and results of the Group and the Parent Company and describes material risks and uncertainties faced by the Parent Company and the companies contained in the Group.

Stockholm, 15 March 2018

Bo Lundgren  
*Chairman*

Åsa Hedenberg  
*CEO*

Jan Berg

Carin Götblad

Eva Landén

Mikael Lundström

Ulrika Nordström

Maj-Charlotte Wallin

Masoomeh Antonsson  
*Employee Representative*

Roger Törngren  
*Employee Representative*

Our Audit Report was submitted on 15 March 2018  
Ernst & Young AB

Mikael Ikonen  
*Authorised Public Accountant, Ernst & Young AB*

# Auditor's report

To the general meeting of the shareholders of Specialfastigheter Sverige AB, corporate identity number 556537-5945

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Specialfastigheter Sverige AB (publ) except for the corporate governance statement on pages 59–65 and the statutory sustainability report on pages 50–57 for the 2017 financial year. The annual accounts and consolidated accounts of the company are included on pages 6–105 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 59–65 and the statutory sustainability report on pages 50–57. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibility sections. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Valuation of investment properties

#### Description of key audit matter

- At 31 December, the fair value of Specialfastigheter's properties amounted to SEK 25,002 million and the change in value to SEK 2,003 million. Unrealised changes in value amounted to SEK 832 million and realised changes in value totalled SEK 1,171 million. A description of the appraisal of the property holdings has been provided in Note 9.
- Each quarter, Specialfastigheter conducts an internal valuation of its entire property holdings and, moreover, in Q2 and Q4, control validations are performed by external appraisers of a number of properties. This means that in 2017, 87% of the market value, corresponding to 48 objects, were valued by external appraisers.
- The valuations are based on the return using cash-flow approach, which entails forecasting future cash flows. The required yield is assessed based on each property's unique risks and on market transactions completed for objects of a similar nature, since few directly comparable transactions occur. Changes in unobservable input data applied in the appraisals are analysed at each balance-sheet date by the company management against internally available information, completed or planned transactions as well as information from the external appraisers. Given the numerous assumptions and judgments that occur in connection with appraisals; we believe that this area should be considered a key audit matter.

*How our audit addressed this key audit matter*

- We have evaluated and examined the management's procedures for valuing properties through measures, including evaluating the appraisal method and appraisal input data.
- We have also carried out comparisons against known market data. With support from our valuation specialists, we have examined the company's internal valuation model. We have also examined, with our valuation specialists' support, the reasonableness of assumptions in terms of required yield, vacancy rate, rental income and operating expenses.
- We have assessed the appropriateness of the disclosures provided in the annual accounts.

**Income taxes****Description of key audit matter**

- The tax expense in the income statement amounted to SEK 446 million. In addition, Specialfastigheter reported a deferred tax liability of SEK 2,990 million. Note 10 contains a description of the tax calculation.
- The calculation and reporting of current and deferred tax are complex processes and, to a high degree, are comprised of judgements and assumptions. These judgements and assumptions include, inter alia, decision data for fiscal depreciation, directly deductible redevelopment expenditure, sales of properties separately or as companies as well as changes in the value of properties and derivatives. Given the numerous assumptions and judgments that occur in connection with the calculation of taxes, we believe that this area should be considered a key audit matter.

*How our audit addressed this key audit matter*

- Our audit evaluated and examined the management's procedure for calculating current and deferred tax as well as examined the calculations against verification data. With support from our tax specialists, we have assessed the application in terms of the applicable tax legislation.
- We have assessed the appropriateness of the disclosures provided in the annual accounts.

**Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 50–57 and 110–114. The Board of Directors and the Chief Executive Officer are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Chief Executive Officer**

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Chief Executive Officer are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Chief Executive Officer intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

Among other tasks, the Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, oversee the company's financial reporting process.

**Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Chief Executive Officer.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

#### Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Chief Executive Officer of Specialfastigheter Sverige AB (publ) for the 2017 financial year and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

A separate list of loans and collateral has been prepared in accordance with the provisions of the Companies Act.

#### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibility section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

#### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Chief Executive Officer in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we

examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement  
The Board of Directors is responsible for the preparation of the corporate governance statement on pages 6–105 in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement was conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with Chapter 6 Section 6 the second paragraph points 2-6 of the Annual Accounts Act and Chapter 7 Section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

#### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 50–57, and that it is prepared in accordance with the Annual Accounts Act.

Our examination was conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young, Jakobsbergsgatan 24, 111 44 Stockholm, was appointed auditor of Specialfastigheter Sverige AB by the general meeting of the shareholders on the 23 April 2017 and has been the company's auditor since the 19 April 2012.

Stockholm, 15 March 2018  
Ernst & Young AB

Mikael Ikonen  
Authorised Public Accountant

# Property holdings

Specialfastigheter owns and manages a total of 96 (104) properties divided among three business areas. The buildings are spread geographically across the country.

	Number of buildings	Land area, sq m	Owned floor space, sq m
■ Prison and Probation Service business area	513	8,422,273	406,508
■ Defence and Judicial System business area	28	519,797	406,942
■ Institutional Care and Other Special Operations business area	589	8,232,306	264,514
<b>Total:</b>	<b>1,130</b>	<b>17,174,376</b>	<b>1,077,964</b>

## Prison and Probation Service business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Asptuna	LINDHOV 15:19, 15:3	Norsborg	BOTKYRKA	18	125,582	4,828
Beateberg	KASSETTEN 1, VÄSTRA SKOGÅS 1:5	Trångsund	HUDDINGE	4	26,584	3,754
Borås	PROVAREN 2	Borås	BORÅS	7	55,720	5,558
Brinkeberg	RESTAD 3:13	Vänernborg	VÄNERSBORG	3	48,049	7,412
Fosie	FORNLÄMNINGEN 1	Malmö	MALMÖ	3	33,109	7,661
Färingsö	SVARTSJÖ 1:59	Svartsjö	EKERÖ	8	47,559	4,722
Gruvberget	GRUVBERGET 1:4-29, 1:31-34, 1:36-40, 2:1, 3:1, 5:2	Åmotsbruk	BOLLNÄS	32	106,054	4,511
Gävle	KÄLLÖ 46:1	Gävle	GÄVLE	5	40,113	7,850
Hall	HALL 4:15	Södertälje	SÖDERTÄLJE	18	588,803	29,732
Halldalen	HALL 4:14, 4:3, 4:5	Södertälje	SÖDERTÄLJE	36	635,882	8,496
Halmstad	EKETÅNGA 4:5	Halmstad	HALMSTAD	5	42,579	5,457
Haparanda	BOJAN 2	Haparanda	HAPARANDA	5	21,631	3,075
Helsingborg	KAVALLERISTEN 10	Helsingborg	HELSINGBORG	8	31,077	4,645
Hinseberg	HINSEBERG 1:8	Frövi	LINDESBERG	23	372,932	11,548
Huddinge	ROTORN 3	Huddinge	HUDDINGE	1	8,016	8,970
Hällby	TUMBO-BERGA 1:3, 1:5	Kvicksund	ESKILSTUNA	20	258,596	8,561
Högsbo	HÖGSBO 31:1	Västra Frölunda	GOTHENBURG	7	35,588	7,445
Kalmar	RAVELINEN 1	Kalmar	KALMAR	3	4,857	2,993
Karlskoga	SURPUSSEN 1	Karlskoga	KARLSKOGA	8	79,485	5,868
Kristianstad	VÅ 147:3	Kristianstad	KRISTIANSTAD	6	43,019	6,961
Kumla	LÖVSÅNGAREN 1, 2	Kumla	KUMLA	32	520,310	51,215
Ljustadalen	FILLA 8:5	Sundsbruk	SUNDSVALL	4	37,555	1,371
Luleå	PORSÖN 1:401	Luleå	LULEÅ	4	27,085	3,944
Mariefred	GRIPSHOLM 4:4	Mariefred	STRÅNGNÄS	18	150,080	8,604
Norrtälje	SKOGEN 1	Norrtälje	NORRTÄLJE	15	191,228	18,464
Nya Saltvik	SALTVIK 2:64	Härnösand	HÄRNÖSAND	10	295,597	23,911
Nyköping	MODELLEN 1	Nyköping	NYKÖPING	3	23,144	6,464

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Rödjan	MARIEHOLM 1:8	Mariestad	MARIESTAD	20	323,753	5,436
Sagsjön, Lindome	ANNESTORP 4:74	Lindome	MÖLNDAL	9	60,000	3,639
Skenäs	SKENÄS 1:19	Vikbolandet	NORRKÖPING	18	1,637,649	7,350
Skogome	SKOGOME 2:2	Hisings Backa	GOTHENBURG	14	275,307	12,868
Skänninge	ÖSTANÅ 6	Skänninge	MJÖLBY	14	146,508	16,353
Storboda	ROSERSBERG 2:7	Rosersberg	SIGTUNA	5	88,466	6,536
Sörbyn	SÖRBYN 9:2	Hörnefors	UMEÅ	22	861,265	8,770
Svartsjö	SVARTSJÖ 1:60	Svartsjö	EKERÖ	9	47,688	4,721
Svartsjö Bostäder	SVARTSJÖ 1:60	Svartsjö	EKERÖ	7	7,000	909
Tidaholm	RAMSTORP 4:10	Tidaholm	TIDAHOLM	17	277,255	15,315
Tillberga	HUBBO-SÖRBY 9:48	Västerås	VÄSTERÅS	8	64,251	13,502
Tygelsjö	PILE 1:7, 1:10	Tygelsjö	MALMÖ	18	120,662	10,306
Täby	RÖNNINGE 3:4	Täby	TÄBY	3	25,288	3,978
Umeå, Ersboda	TEGLET 1	Umeå	UMEÅ	4	38,034	3,902
Ystad	TERMOSTATEN 1	Ystad	YSTAD	7	59,550	8,198
Åby	FUNBO-ÅBY 9:1	Uppsala	UPPSALA	25	134,363	5,026
Österåker	PRÄSTGÅRDEN 1:11	Åkersberga	ÖSTERÅKER	7	405,000	15,679
<b>Total Prison and Probation Service</b>				<b>513</b>	<b>8,422,273</b>	<b>406,508</b>

## Defence and Judicial System business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
FOI	ARMERINGEN 1	Umeå	UMEÅ	4	290,535	13,575
Formgivaren	FORMGIVAREN 1	Solna	SOLNA	1	9,169	34,967
Kista	FÄRÖARNA 6	Kista	STOCKHOLM	1	6,559	24,658
Försv N Undreg	BERGNÄSET 3:53	Luleå	LULEÅ	4	22,000	3,949
Lejonet	LEJONET 11	Luleå	LULEÅ	2	10,596	21,800
Kristallen	KRISTALLEN 2	Lund	LUND	0	2,647	0
Kronoberg	KRONOBERG 18	Stockholm	STOCKHOLM	7	42,358	163,000
Rådhuset	FRUKTKORGEN1	Stockholm	STOCKHOLM	1	13,595	22,765
Tegeludden	TEGELUDDEN 8	Stockholm	STOCKHOLM	1	3,504	14,812
Tre Våpen	TRE VAPEN 4	Stockholm	STOCKHOLM	3	94,224	66,458
Öb Högkvarteret	KAVALLERISTEN 3	Stockholm	STOCKHOLM	4	24,610	40,958
<b>Total Defence and Judicial System</b>				<b>28</b>	<b>519,797</b>	<b>406,942</b>

## Institutional Care and Other Special Operations business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Bergsmansgården	BROTORP 1:7	Fjugesta	LEKEBERG	7	21,400	3,452
Björkbacken	BERGSJÖN 21:1	Gothenburg	GOTHENBURG	5	18,680	2,906
Brättegården	BRÄTTE 1:2	Vänersborg	VÄNERSBORG	15	98,300	4,175
Bärby	FUNBO-BROBY 1:3	Uppsala	UPPSALA	21	191,907	7,872
Ekebylund	EKEBY 5:4	Rosersberg	SIGTUNA	12	12,180	2,289
Eknäs	EKNÄS 2:2	Enköping	ENKÖPING	11	65,870	4,938
Fagared	FAGERED 3:1	Lindome	MÖLNDAL	15	378,805	7,029
Flygvapen- museum	MALMEN 2:8	Linköping	LINKÖPING	5	71,853	17,296
Folåsa	FÅLÅSA 12:1	Vikingstad	LINKÖPING	18	153,604	5,689
Granhult	GRANHULT 2:4	Ramsberg	LINDESBERG	9	37,222	2,161
Gudhem	GUDHEM 12:3, HOLMÄNGEN 7:1	Gudhem	FALKÖPING	19	217,084	11,066
Rebecka	TROXHAMMAR 8:2	Skå	EKERÖ	23	220,995	6,457
Hessleby	HÄSSLEBY 2:2	Mariannelund	EKSJÖ	15	500,060	7,189
Hornö	HORNÖ 1:1, 1:8	Enköping	ENKÖPING	18	398,223	5,107
Håga	HALL 4:4, 4:7, 4:8, 4:10, 4:12, 4:13, TYSSLINGE 1:30, 1:31	Södertälje	SÖDERTÄLJE	9	174,795	4,485
Johannisberg	GRYTNÄS 2:1, GRYTNÄS 2:11	Kalix	KALIX	9	130,922	5,253
Karlsvik	BOSJÖKLOSTER 1:716	Höör	HÖÖR	13	96,879	3,606
Hässleholm	FRIDHEM 9	Hässleholm	HÄSSLEHOLM	2	16,116	1,305
Klarälvsgården	ORRETORP 2:2	Deje	FORSHAGA	6	243,800	2,590
Ljungaskog	LJUNGASKOG 15:28	Örkelljunga	ÖRKELLJUNGA	12	281,202	4,745
Ljungbacken	GRÅSKÄRR 1:1, OLIDAN 3:17, OLIDAN 4:9	Uddevalle	UDDEVALLA	25	276,152	7,001
Lunden	KLOSTERGÅRDEN 2:10	Lund	LUND	1	26,391	4,621
Låganäs	LÅNGANÄS 1:1	Eksjö	EKSJÖ	30	434,995	8,946
Lövsta	LÖVSTA 1:33, 1:67	Vagnhärad	TROSA	37	500,628	9,247
Nereby	NEREBY 1:1	Härestad	KUNGÄLV	19	162,660	3,601
Perstorp	UGGLAN 1	Perstorp	PERSTORP	4	4,264	1,000
Renforsen	DEGERFORS 38:9, SLAKTAREN 1	Vindeln	VINDELN	7	34,098	3,183
Revinge	REVINGE 1:14	Lund	LUND	22	472,000	17,912
Runnagården	KRUSBÄRSBUSKEN 10	Örebro	ÖREBRO	13	77,522	4,184
Ryds Brunn	RYD 1:143	Ryd	TINGSRYD	8	21,620	5,143
Råby	STORA RÅBY 32:6, 32:21, 32:23	Lund	LUND	4	0	3,381
Rällsögården	DAMMEN 1:11-15, 1:37, 3:1, 3:2, RÄLLSÖN 1:1-4	Kopparberg	LJUSNARSBERG	18	1,297,250	6,574
Rpk Gothenburg	BACKA 866:772	Hisings Backa	GOTHENBURG	1	25,417	4,462
Sandoskolan	SANDÖ 1:4, 1:5, 2:5	Sandöverken	KRAMFORS	38	433,348	30,830
Stigby	STIGBY 1:9, 7:3	Visingsö	JÖNKÖPING	17	78,146	7,064
Sundbo	SUNDBO 7:106, 7:107, 7:109, 7:63	Fagersta	FAGERSTA	30	385,423	9,630
Vemyra	VEMYRA 3:1, 3:2	Sollefteå	SOLLEFTEÅ	12	173,400	4,293
Åstorp	BULTEN 2	Åstorp	ÅSTORP	2	17,939	5,007
Älvgården	YTTERNORA 2:6, 2:7	Hedemora	HEDEMORA	20	75,600	6,995
Östfora	ÖSTFORA 1:30	Järlåsa	UPPSALA	21	290,915	5,149
Öxnevalle	BRÄNNARED 2:3	Öxnevalle	MARK	16	114,641	6,681
<b>Total Institutional Care and Other Special Operations</b>				<b>589</b>	<b>8,232,306</b>	<b>264,514</b>

# Definitions

## Adjusted return on equity, %

Profit/loss after tax, after including changes in value and associated deferred tax, in relation to average equity.

## Carbon dioxide, CO<sub>2</sub>

When fossil fuels are burned, carbon dioxide – a greenhouse gas – is released.

## Equity, SEK million

Recognised equity.

## Equity/assets ratio, %

Adjusted equity on the balance-sheet date as a percentage of total assets.

## Floor space, sq m

Estimated lettable floor space in square metres.

## Green appendices

Specialfastigheter's green appendices (also known as green leases) are a standardised template developed by the Swedish Property Federation for reducing the environmental impact from premises. The agreement sets out the landlord's responsibilities, the tenant's responsibilities and shared responsibilities, and details the measures agreed by the landlord and tenant to reduce environmental impact through information and collaboration in terms of energy and indoor environment, material selection and waste management.

## Green bonds

Bonds intended to finance environmentally sustainable projects. Our framework is based on the Green Bond Principles.

## Greenhouse gases

Greenhouse gases is an umbrella term for many different gases that increase the greenhouse effect.

## Interest coverage ratio, cash-flow based

Profit/loss before tax after adding financial expenses, changes in value and gains/losses from property sales, divided by financial expenses excluding changes in value of financial derivatives.

## Loan-to-value ratio, %

Interest-bearing net loan liabilities in relation to the closing value of investment properties.

## Net operating income, SEK million

Income from property management less property expenses.

## Occupancy rate, %

Total floor space of let premises in relation to total lettable floor space.

## Operating net financial items, SEK million

Interest expense less interest income for the year.

## Profit from property management, SEK million

Profit from property management is a specific earnings metric commonly used in the property sector to facilitate comparability in the sector. It is calculated as the sum of net operating income, administrative expenses and net financial items.

## Rent per sq m, SEK

Annual rent divided by the lettable floor space in square metres at the end of the year.

## Return on equity, %

Profit/loss for the year in relation to average equity.

## Return on total capital, %

Net profit for the year plus financial expenses in relation to average total assets.

## Secure facilities

Properties that have been adapted for operations with security requirements in terms of operational, personal, information or perimeter security.

## Surplus ratio, %

Net operating income divided by income from property management.

## Whistle-blowing

This is the term and the function that we use to enable anyone to anonymously state their suspicions regarding cases of corruption or other improprieties.

## Yield, %

Net operating income divided by the average market value of investment properties.

*Specialfastigheter has selected the above key performance indicators based on established practices in the real estate sector and our own governance.*

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## Reporting calendar

Interim report January–March 2018  
17 April 2018

Interim Report January–June 2018  
11 July 2018

Interim Report January–September 2018  
17 October 2018

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## Annual General Meeting

17 April 2018, 11 a.m.,  
Alströmergatan 14,  
Stockholm, Sweden

## Addresses

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**SPECIALFASTIGHETER**  
EN SÄKER VÄRD